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The Mythology of Tax Cuts

CARL F. CHRIST
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How the Shah De-Stabilized Himself

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Measuring Italy's Underground Economy

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Breakfastgate: The FTC *vs.* the Cereal Companies

TOM BETHELL

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SPRING 1981 **Policy Review** 16

2 Contributors

3 Controversy
THOMAS MOLNAR
EDWARD J. WAITZER
MICHAEL NOVAK

13 Breakfastgate: The FTC *vs.* The Cereal Companies
TOM BETHELL

33 Over There
COLIN S. GRAY
LUIGI BARZINI

45 The Intelligent Woman's Guide to Feminism
MIDGE DECTER

55 How the Shah De-Stabilized Himself
GRACE E. GOODELL

73 The Mythology of Tax Cuts
CARL F. CHRIST
ALAN A. WALTERS

87 Measuring Italy's Underground Economy
ANTONIO MARTINO

107 Gold Prospects
HENRY HAZLITT

115 Congressional Oversights
DONALD LAMBRO

129 Globaloney 2000
HERMAN KAHN
ERNEST SCHNEIDER

149 Tales from the Public Sector
IAIN ELLIOT
RUSSELL LEWIS

155 Book Reviews by
ARNOLD BEICHMAN
TERRY EASTLAND
JULIANA GERAN PILON
TOM HAZLETT

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ERRATUM

In *Policy Review* #15 (Winter 1981), Norman Gash was improperly identified as a former secretary of the British Academy. In fact, he has been a Fellow of the Academy since 1963.

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Controversy

God and Mammon

Dear Sir:

There have been several attempts in the past decades to refute Max Weber's popular thesis about the Protestant (puritan) origin of capitalism. Now Mr. Novak ("God and Man in the Corporation," Summer 1980) reasserts Weber's thesis, in a language befitting an eighteenth century Massachusetts preacher: the cause of God and the cause of capitalism are indissolubly related. There is, however, a difference of approach: for the German sociologist his theory was based on historical observation and interpretation; it was a scholar's view of a chain of phenomena. For Mr. Novak, capitalism is indeed a divinely willed form of human activity; it is truth – Gospel truth, to be exact. For Max Weber, the world had changed since the seventeenth and eighteenth centuries, and toward the end of his life he turned to the study of other phenomena, mainly the bureaucratic State and Marxism. For Mr. Novak, the changes that have occurred (for example the rise of socialism and statism) are evil, and our duty is to reaffirm the timeless (moral and spiritual) values of capitalism, democracy, and the (American) business corporation.

There can be no debate between these two statements; they are made on two different levels of discourse: one descriptive, the other prescriptive. In Mr. Novak's judgment, capitalism is an undisputably good thing and, to emphasize his conviction, he adds as a decisive reinforcement the argument that God made it that way! To serve human needs and rational interests [in Mr. Novak's view the chief characteristics of capitalism and of nothing but capitalism] is to serve . . . God" (page 25). Mr. Novak continues, "Young Christians and Jews will . . . better serve the cause of the Kingdom of God and save their souls by restoring the power of the private sector than by working for the State" (page 28). And finally, "Commerce should be regarded as the fulfillment of a vocation from God and a way of cooperating in the completion of Creation as God intended it" (page 29).

This is not the scholar's – and I mean the Christian scholar's – language. It is the prophet's exhortation, even his threats of damnation. There are two ways of reasoning with Mr. Novak. One is to appeal to his conscience as a student of history, although in his article he seems to have silenced it. The other way is to make him look around in the world as it is. Let us try both ways.

Scholars like Michael Walzer, Joseph Schumpeter, Paul Claval, and Daniel Bell have very different views from Mr. Novak's on the origins and destiny of capitalism. Michael Walzer (in *The Revolution of the Saints*) finds that the puritan ideology was the origin of radical politics: "Puritan preachers openly

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demanded parity, the abolition of hierarchy, and its replacement by clerical conferences headed by an elected moderator." The Calvinist God, Mr. Walzer continues, "establishes his omnipotence by leveling the cosmos, by destroying the intermediate powers . . . finally – the power of – the king." He concludes that the body of puritan ministers was the first example of a "radical intelligentsia" helping to organize the inchoate political forces of the classes (the merchants) to which it makes its appeal!.

This revolutionary-radical character of "puritanism and the spirit of capitalism" is underlined by Perry Miller (in *Errand into Wilderness*) and following him, Paul Claval (in *Les mythes fondateurs des sciences sociales*). "The Covenant with God is a contract between men, it is the foundation stone of societies which henceforth manage without divine presence. The members of society are relieved from their anguish [induced by the fear of God] .... There is no longer any royal mediation, the citizenry enter upon a contract directly with God."

In various works, such as *Capitalism, Socialism and Democracy*, Joseph Schumpeter argues that the capitalist enterprise and system are like an army where the command makes concession after concession to the footsoldiers, since the company and the system can only flourish if the latter (let us leave the analogy) become democratic consumers. Yet, the concessions create a cultural climate – here Daniel Bell's thesis in *The Cultural Contradictions of Capitalism* is helpful – in which the socialist and the anarchistic, nihilistic, counter-cultural, socially destructive aspiration becomes irresistible. Let us add, not because capitalism is not economically efficient (perhaps the most efficient) system, but because, like other economic systems but in a *sui generis* way, it produces materialism and hedonism.

The five scholars just cited do not contradict Max Weber, but they go beyond his thesis. According to them, capitalism was born out of a revolution and it is its nature to promote further revolutions, undermining itself and the surrounding culture in the process. Thus to tie its cause to the divine will is a far-fetched enterprise; the claim is similar to that of other ideologies. Mr. Novak's thesis also suffers from a degree of rashness, even of indecency: what if capitalism begins declining – as it has done in most parts of the world? Will this precipitate God from his throne, or will God adopt, then, socialism – which is on the rise? But in any event, must we call in God when speaking of human systems, regimes, social configurations, and forms of government? I do not think so; neither the cause of God, nor of scholarship benefits by this.

Does Mr. Novak see the present world as it is? To doubt it is not to vindicate the legion of "progressive" theologians who, mostly from opportunism (Gollwitzer, Hulsbosch Kung, Guttierez, Moltmann, etc.), proclaim the superiority and divine inspiration of socialism. The utterings of the World Council of Churches are not distinguishable from those of international terrorists, and their acts are only at one remove from planting bombs and massacring innocents.

The point to be challenged in Mr. Novak's world perspective is not the superiority of one economic system over another, but the belief that outside "democratic capitalism" there is – literally – no

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salvation, economic, religious, or cultural. Mr. Novak's is the provincial American view that whatever is not "like us" is bad, immoral, inefficient, suspect, and questionable. One can only smile at the quotation from a Freedom House publication which equates freedom with the multiparty system: ". . . the farther a country is from such a system, the less freedom it is likely to have." This categorical statement reminds me of Lloyd George's remark about President Wilson at the Versailles Conference: "[President] Wilson appeared as the spokesman for the combined Ten Commandments and the Sermon on the Mount." I could mention the case of a good number of the "156 nations" that Mr.. Novak quotes after Gastil, where a multiparty system would mean a collapse of the civic order *and* of the economy. Singapore, Chile, South Africa, Taiwan, and Thailand come readily to mind, and as a negative proof, the one-party State under Franco which propelled Spain to ninth position among industrial nations, over against the multiparty democratic regime of Adolfo Suarez which, with strikes, anarchy and terrorism rampant, readies the country for under-development. Anglo-Saxon type "democratic capitalism" is, together with socialism, the kind of system from which these nations try to escape.

Indeed, in my twenty years' travels on five continents I have found that both capitalism and democracy, separately and in combination, are rejected by many old and new regimes, and that the trend continues with an increased determination. Are all these countries in the hands of God-forsaken despots bent on destroying them? Only in the minds of terrible simplifiers does the Western model appear universally applicable, in minds for which local traditions, geopolitical position, the religious factor, and the ethnic composition appear as light-weight arguments compared to the profit motive on a grand scale and the spectacle of haggling political parties.

That we, Americans, wish to keep our puritanic – thus narrowly based – good conscience, is one thing; to be blind to other people's conscience and to the wide world's realities, is another.

Thomas Molnar
New York

Dear Sir:

While a persuasive effort, Mr. Novak's recent article confuses reality with an elegant ideal. In an effort to develop a theology of democratic capitalism, Mr. Novak sees our economic system as the mainstay and threatened by social and political disorder. While the logic is appealing, the implications of his conclusions prove unpalatable to most. It may prove more fruitful to begin with an examination of how commonly held values are threatened by the dominant power of large institutions in our society.

Over fifty years ago, Joseph Schumpeter promulgated the thesis, "Capitalism is economically stable but politically and socially unstable." Such a view provides the basis for Mr. Novak's argument. However, when Mr. Novak suggests that "moral decisions about growth and productivity are prior to questions of distribution," he omits to draw upon practical experience. What, for example, occurred in Iran where material advances, while universal in their sheer magnitude,

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were not enough to temper social unrest? Similarly, we wonder how Mr. Novak would apologize for some of the Asian countries which have shown the most rapid rate of material progress in recent years. South Korea, Taiwan, and Singapore, which shine in the light of Mr. Novak's vision, are rarely thought of as the ideal political democracies.

Perhaps nowhere is the naivete of Mr. Novak's argument more evidenced than in his consideration of multinational corporations. By failing to differentiate between the enterprise and the individuals within it, he ignores the question of whether and how such large institutions are or can be responsive to human needs, values and aspirations. In suggesting that "no multinational corporation is as strong as a foreign state," he ignores the very logic of market systems championed elsewhere in his article.

Similarly, while Mr. Novak states that "the problem of order in a differentiated society has not been adequately addressed" he makes no effort to adjust his framework to this problem. It is generally accepted that large enterprises (whether public or private) find it difficult to deal with an environment of uncertainty and strive for order. Thus it is that multinational corporations are frequently attracted to countries with totalitarian regimes which can maintain such order. Indeed, Vilfredo Pareto, one of the great ideologues of rational self-interest (which Mr. Novak contends, is the basis of democratic capitalism) concluded that undemocratic force will, in the end, have to be used to impose upon a society the capitalistic mode of economic organization. The basis for counteracting such trends lies in rebuilding communal consensus on values and striking a practical balance between the powers of dominant institutions.

It is interesting to note that at about the same time Mr. Novak presented his paper to the conference on "The Judaeo-Christian Ethic and the Business Corporation," Milton Friedman and Paul Samuelson engaged in a discussion concerning "The Economic Responsibility of Government" at the Center for Education and Research in Free Enterprise at Texas A & M University. In his remarks, Professor Samuelson speculated on a form of capitalistic-fascism in which the running of the economy would be turned over to a priestly caste whose religion is that of market competition. Such a system, while perhaps the logical solution to the dilemma of political and social instability, would never allow for the criticism of the system which Mr. Novak gratuitously promises.

If we are to move beyond such promises and come to a better understanding of performance, theoreticians such as Mr. Novak will have to abandon simple scapegoats and solutions in search of the more elusive factors which safeguard the economic, political and social freedoms we enjoy.

Edward J. Waitzer
The Agora Foundation
Ontario

Michael Novak replies:

It is a pleasure to be attacked energetically from the Right. Indeed, it will please me mightily if more artillery is marched into place against me on the Right, in array against the guns on the Left. Then I may be lucky enough to slip away while they fire at each other.

The main salvoes Dr. Molnar launches against me, however, over-

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shoot my position. In my view, Christianity transcends democratic capitalism, being intended for all ages, all cultures, all systems, including futures yet unknown. I carefully asserted more than once that democratic capitalism is not the Kingdom of God. My point is, although fairly original, far more modest. Among the various forms of political economy known to Christian history – there have not been, after all, so many – two things may be said with certainty of democratic capitalism. First, it is not the most wicked nor the least concerned with the common liberties and common good of its peoples. Second, it is without question the system least well studied by Christian philosophers and theologians. The conjunction of these two facts is odd.

There are many books by Christian scholars justifying the political economy of feudalism. There are some justifying the absolute monarchies and mercantilist states of the eighteenth century. (Surely, Thomas Molnar knows of some which justify the Habsburg empire.) There are hundreds of books promoting Christian socialism. The one system of political economy – particularly with reference to its economic component – on which there is nearly total silence is democratic capitalism. Among conservatives, there are many of the "rose trellis" school (the agrarians) and others of the "stained glass" school (the medievalists and the writers, like T.S. Eliot, on "Christian civilization") who disparage popular democracy and loathe capitalism. The one place in which some conservatives make common cause with socialists and utopians of every sort is in denouncing democratic capitalism, especially in its capitalist part.

Perhaps I am only drawn to underdogs. But anything so universally abjured by Left and Right seems to me to deserve at least a hearing. First we must *describe* the system accurately. Then we must evaluate it. Finally, we must compare it with alternatives. This comparative method, in turn, ought properly to be composed of two parts: comparisons of the empirical record, the *praxis* if you will; comparisons of the *ideals* embodied in the practice. As I see it, the ideals of democratic capitalism have never been adequately stated. In the main, the builders of the system were intensely practical people (and practical with good reason – to avoid the divisiveness of the religious wars). Most of the theory about it has been written by its enemies. Dr. Molnar cites some of them.

The literature on the origin of capitalism and on its ethos is vast. I consider some of it in a new book which, in due course, will be published. Suffice it to say here that Dr. Molnar cites only one side of this literature, and the theories he cites do not seem to me to be true to experience, present or historical. The best single work in support of Weber's thesis, in my judgment, is David Little's *Religion, Order, and Law* (Harper and Row, 1969). The best single – and in my judgment decisive – refutation of Weber is Hugh Trevor-Roper's splendid essay "Religion, the Reformation and Social Change" (in his *The European Witch-Craze*, Harper & Row, 1969).

I admire much of the work of Michael Walzer and Perry Miller. (I do not know that of Paul Claval, but am glad for the reference). Yet in my experience, the role of the Puritans in the establishment of the theory and practice of democratic

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capitalism is, while significant, much exaggerated; there were many other counterbalancing tendencies. I much admire Joseph Schumpeter, but it is possible to offer an interpretation different from his of the cultural climate of democratic capitalism. Matters of morals and culture are not *determined* by economic or political systems. True enough, a free political system and a free economic system must necessarily release the energies of sinners as well as saints. Joseph Schumpeter is right to suggest that under democratic capitalism – precisely because of this indeterminacy – the moral-cultural system acquires a new prominence, a new energy, and requires concerted intellectual and moral attention. That is why we cannot much longer postpone the effort to develop a moral-cultural theory of democratic capitalism, to define its theory of inherent and original spirit, and to strengthen its own necessary spiritual life. Unless we do that, Schumpeter predicts, the system will collapse. On the other hand, we might also prove him wrong by doing what is necessary.

I much admire Daniel Bell's work, too. Yet Daniel Bell remains very much a socialist in the way he interprets capitalism. The anarchy, nihilism, and "countercultural, socially destructive aspirations" he (and Dr. Molnar) see within democratic capitalism are bound to appear within any truly free society. For they spring from the sinful, statistically predictable tendencies of human beings everywhere, which liberty releases. But there are counterbalancing tendencies, too: deferral of satisfactions, investment in the future, cooperativeness, immense energies for voluntary associations of all kinds, idealism, a strong family life on the part of many, the resistance of countless ordinary persons to mere consumerism and hedonism, etc.

Undoubtedly, a free society openly exhibits more than its share of materialism and hedonism; such a society may also exhibit considerable personal, familial, and civic virtue. Not all free persons can be expected to be saints. The flagrantly displayed vices of many must not blind us to the quiet virtues of others. In freedom, wheat and tares grow together.

May a Christian work out his vocation under democratic capitalism, even work for a corporation? If Dr. Molnar thinks a Christian may do so in Singapore, Chile, South Africa, Taiwan, Thailand, and under Franco, why not? It may be that God despises "Anglo-Saxon democratic capitalism" as much as Dr. Molnar does. Christian philosophical and theological traditions may, however, allow at least a little space for democratic capitalism, in a few nations, for a relatively brief period in human history, as an experiment.

To repeat, then, a major theme of my essay: the Christian religion transcends any and every form of political economy, including democratic capitalism. Only cultures with a moral system of a certain sort can make sense either of democracy or of capitalism. Most nations of the world, in the present as in the past, do not seem to be able to make (some do not *desire* to make) either of these two systems work. Still both democracy and capitalism are relatively new to history. They have transformed human horizons. They have their own flawed beauty. It seems only fair for a Christian philosopher or theologian to understand them exactly, even if he chooses to condemn them.

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I can, of course, understand why even a few pages of kind words about democratic capitalism might send Dr. Molnar up a wall. It is unheard of – it is unforgivable – to think of democratic capitalism as one possible historical expression of Jewish and Christian life. Does democratic capitalism reflect the flawed and graced nature of human beings? Jacques Maritain traced the roots of democracy, not to the Enlightenment (as Solzhenitsyn does), but to Jewish-Christian traditions (*Christianity and Democracy*, 1948). A decade later, he surprised himself, in Chapter 13 of *Reflections on America*, by discovering Jewish and Christian roots in the capitalist system, which in Europe he had been taught to despise. He saw in the capitalist part of democratic capitalism unanticipated sources of self-transformation. He pleaded for a more accurate theory – both a descriptive theory, and a theory about the system's inherent ideals – to express what was already unmistakably present in the historical reality.

Maritain never undertook the task to which he called others. It is my intention to state as clearly as I can, in (if you will) a hypothetical mode, the best possible moral and theological case for democratic capitalism. If I do the job badly, perhaps others will do it better. Once the case has been made, however, there will be time enough to evaluate it, and to compare it with the alternatives. People will remain free to choose.

What would be the worst of all, however, would be to allow democratic capitalism to perish from this earth (as well it may) without its even once having been accurately described and interpreted in the light of Jewish and Christian intellectual traditions. Dr. Molnar may prefer other forms of political economy. I do not begrudge him that. For myself, I would like to understand, clearly and fairly, the one that has nurtured me, toward which I feel a certain gratitude.

There is no reason why only socialists should have the privilege of "an elegant ideal." Many are willing to admit that the *practice* of democratic capitalism is superior to the *praxis* of socialism. But my point is a stronger one. The *ideals* of democratic capitalism are also superior to the ideals of socialism.

As it happens, just after receiving Mr. Waitzer's letter I turned to the top book on my night-stand, the exchange between Milton Friedman and Paul Samuelson published by Texas A&M. Most of Mr. Waitzer's letter is modelled, paragraph by paragraph, upon Professor Samuelson's remarks. (It is not, however in the spirit of Paul Samuelson.) The quotations from Joseph Schumpeter and Vilfredo Pareto came from Professor Samuelson. So do most of the other points, including the concrete examples.

The debate between Professor Friedman and Professor Samuelson concerned how to draw a line that respects the independence of the economic system from the political system. Both agree that both systems are inevitably present, that both interact, and that both play economic roles. Both insist that their agreements are larger than their disagreements. Their disagreements mostly concern questions about the *consequences*, intended and unintended, of alternative courses of governmental action. Professor Friedman tends to side against governmental intervention in a cleaner, more principled way;

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Paul Samuelson argues that the boundary lines ought to be vague and loose, to allow for experimentation and practical adjustment.

The context I was considering is far different. It is philosophical and theological, at a more theoretical remove. My aim was to describe, not "capitalism" (i.e., the economic system), but "democratic capitalism," the triune system. This triune system combines *an economic system* based upon markets and incentives with *a political system* based on individual rights and democratic institutions, and *a moral-cultural system* based on liberal, pluralist, Jewish-Christian values. There are not many such triune systems in the world.

I have, then, no need at all to "apologize for" systems which are not democratic. They fall short of this ideal. Mr. Waitzer, however, might observe that the *economic* systems of Singapore, Taiwan, South Korea, and others he mentions do have an *economic* record superior to that of their socialist neighbors. In addition, they also appear to offer a wider range of liberties (not only economic, but also political and moral-cultural) than do their socialist neighbors. To be sure, they fall well short of the ideal of democratic capitalism. Still, their performance concerning human liberties is better, on the record, than that of their socialist neighbors. Is this an effect of capitalist economics? Socialist economics is rather more authoritarian, isn't it?

In an important sense, an economic system based upon markets and incentives is not as "stable" as Professor Samuelson's quotation from Joseph Schumpeter's table talk may suggest. A capitalist economic system is open, experimental, dynamic, uneven, subject to trial and error, visibly marked by all the signs of sinfulness human liberty commonly results in. It is more durable than Marx imagined. But, then, Marx had a lot of things wrong. Still, "stable" is not quite the right word.

Professor Samuelson does tell a parable, a dreadful fantasy. He imagines a non-existent society in no way committed to political liberty or to moral-cultural liberties. It is authoritarian, disciplined, almost Puritan in its dogmatic beliefs. It "imposes" a system of economic liberties upon its citizens whether they like it or not. They may prefer to be hedonist, but a "priestly caste" insists on the disciplines of saving, investment, markets. The idea behind this fantasy is to prevent the intellectuals whom Schumpeter feared, and the hedonistic impulse which springs from affluence, from destroying the culture on which a capitalist economy depends.

For myself, I don't believe Professor Samuelson's fantasy would work. In the first place, it imagines a poorly educated, docile society, not yet democratic or dissenting. Such a system may well produce affluence. If so, it will necessarily generate (a) a larger and larger middle class; and (b) a system of mass production steadily enlarging the buying power of the poor. Educational levels and skills will rise. Since its citizens are obliged to participate in free economic decisions and to keep for themselves the wealth they earn, they will gain more and more personal independence. They will soon want political liberties to match their economic liberties, and moral-cultural liberties to match both. Of course, there may somewhere

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be humans who prefer dependence upon rulers and priests. But affluent, educated populations are not likely to remain docile forever. Homogeneity of thinking and believing is not probable.

Thus, capitalist systems, even when authoritarian, have a tendency to move toward political democracy and moral-cultural pluralism. In recent years, some authoritarian capitalist states – Greece, Portugal, Spain – have in fact moved toward democracy. There are not yet any examples of socialist states moving in this direction. The recent case of Poland (a nation with historic democratic traditions and a Jewish-Christian moral culture) seems (in early October, 1980, as I write) to be setting a new precedent.

Mr. Waitzer fails to grasp the concept of democratic capitalism. This is understandable, since all other forms of political economy, traditional or socialist, are unitary. One authority (like the mullahs in Iran) makes all significant decisions, economic, political and moral-cultural. By contrast, under democratic capitalism, three quite different sets of persons, in different institutional frameworks, with different ideals and purposes, and observing what Daniel Bell calls different *axes* of concern (the *practical, utilitarian rationality* of economics, the *entitlements* of political equality, the satisfactions of the *self* in culture), dramatically complicate the social order. Democratic capitalism affords a triune order, not a unitary order.

Such a triune system is an experiment. It may not endure. Not many people may be able to imitate it. It clearly has its own faults, dangers, and dilemmas. It also has its moral beauties.

Democratic capitalism is a larger concept than that of Professor Friedman's free market system and Professor Samuelson's liberal economic system. More than either of these, it tries to account for the moral-cultural motives and institutional forces which modify, check, and compete with merely economic or political forces.

For example: the individuals who work within multinational corporations are also moral agents. They are responsible for their own decisions, and obliged to face the moral-cultural complexities of their operations in foreign lands. The concept of democratic capitalism does not permit them to think of multinational corporations as economic agencies alone. In fact, such foreign operations sometimes fail for political reasons, sometimes for economic reasons, and sometimes for moral-cultural reasons. A theory that deals explicitly with all three systems is required simply to do justice to the facts of life. Naturally, even an "elegant" theory does not, by itself, solve practical difficulties. But it does help to see how complex the problems are.

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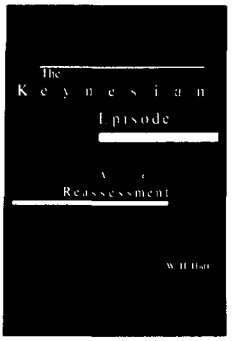

The Keynesian Episode

By W. H. Hutt

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Born in 1899, W. H. Hutt graduated from the London School of Economics and based his academic career at the University of Cape Town. He is presently Distinguished Visiting Professor of Economics at the University of Dallas.
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Breakfastgate: The FTC *vs.* the Cereal Companies

TOM BETHELL

On April 26, 1972, the Federal Trade Commission filed a complaint against the Kellogg Company, General Mills, Inc., General Foods Corporation, and Quaker Oats Company, charging them with having a "highly concentrated, non-competitive market structure in the production and sale of ready-to-eat cereal." In effect, the FTC claimed, although no one company had a *monopoly* of the $740 million-a-year industry, these four companies had managed to achieve a *shared monopoly* over it.

The four companies indeed did (and still do) share a large proportion of the ready-to-eat breakfast cereal market—over 90 percent in 1972. Kellogg, a 75-year-old company based in Battle Creek, Michigan, had the largest share, with 45 percent of the market. General Mills had 21 percent, General Foods 16 percent. But unlike General Mills or Foods, which manufacture such items as toys, jewelry, and pet food, Kellogg devotes nearly all of its energies to manufacturing and selling cereal. Therefore, although it is a smaller company—191st in the Fortune 500 (1970) ranking as opposed to General Foods' 45th place—Kellogg has the most at stake in the battle with the FTC, and the most to lose if the agency prevails. The case, not yet resolved nine years later, is therefore sometimes referred to as the Kellogg Case.

As for the fourth company, Quaker Oats, its share of the cereal market was 9 percent at the time the suit was filed, but within a few years the company embarked on a program of expansion and by 1978 its market share had increased. The larger slice of the "cereal pie" captured by Quaker at the expense of its co-monopolists was an embarrassment to the FTC theory of tacit conspiracy between them. In any event, the FTC administrative law judge trying the case, Harry R. Hinkes, agreed to drop Quaker Oats from the complaint in November 1978.

To correct the alleged monopoly, the FTC has proposed a draconian remedy. If nothing else, it demonstrates how much is at stake in the case. This was, in any event, made perfectly clear in 1976 by a former FTC staffer named Charles Mueller, who had

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helped launch the cereal case in 1969. "Should the courts side with the FTC," he said in *Newsweek*, "they would be declaring about one-third of the U.S. economy to be illegal."

As this comment suggests, industrial concentration of the type found in the cereal business is common in America. Why, then, was the cereal industry singled out for investigation before the filing of the complaint in 1972? "I didn't pick the auto or petroleum industries," Mr. Mueller was quoted as saying, "because they have too much political clout."

If the courts *do* side with the FTC, Kellogg will have to sever limbs from its own corporate body, splitting off three new companies; General Mills and General Foods will likewise have to dismember themselves and create one new company each. The five new companies must each have enough capacity to supply approximately 6 percent of the ready-to-eat cereal market; and each would be assigned exclusive rights to manufacture and sell one or more brands already established in the marketplace.

An FTC trial brief, filed in 1976, specified that the new companies to be carved out of Kellogg's assets would be established in Kellogg's Memphis, San Leandro, and Omaha plants; that the new company in Memphis would have exclusive rights to Rice Krispies, that the one in San Leandro would be awarded Special K, while Omaha would get unspecified "comparable brands."

Moreover, Kellogg, General Mills, and General Foods would be required to license all of their remaining cereal formulas and trademarks to anyone who wanted to use them, free of charge. Likewise, all newly developed brands would be wrested away from the exclusive use of their developers five years after they had been introduced. Finally, the accused companies would be prevented from making any future acquisitions of other cereal companies for twenty years.

Even if the companies involved *have* been engaged in a tacit conspiracy, this proposed "remedy" would strike many people as being both naive and arrogant. It makes the fundamental mistake of assuming that viable new companies can simply be *ordered* into existence; that we will all necessarily be better off when they do exist; and that the necessary efficiencies of scale, efficiencies of management, and productivity of labor can be created by fiat. We see here the uncomfortably close resemblance between the bureaucratic and the totalitarian mind. Companies such as Kellogg have worked their way into positions of viability and profitability over the decades as a result of purely voluntary agreements, be-

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tween buyers and sellers, management and labor, suppliers and customers, with *both* parties perceiving each agreement as beneficial to themselves. Such voluntary agreements do not necessarily persist when a new, *coercively established* enterprise is ordered into existence by the government and set down arbitrarily in the middle of the business landscape. The FTC may have had it in mind that Kellogg would not survive this proposed dismemberment. More likely, however, the new coerced companies would not get off the ground at all.

Lurking behind that part of the remedy dealing with trademarks seems to be the belief that brand names are somehow inherently unfair, exerting an irresistible, magnet-like attraction on the mind of the shopper, so that it would be better for all companies (or at any rate all except Kellogg *et al.*) to be able to avail themselves of them. The greater variety of companies using such names—Grape Nuts, All-Bran, etc.—would then (according to FTC theory) compete with one another more strenuously.

This neglects the possibility that these products and brand names gradually appealed to consumers over the years not just because they sounded nice—at one time, obviously, all such brand names were new and strange sounding—but because they were perceived as good bargains: a tasty box of breakfasts at a price others could not match.

The "Shared Monopoly" Charge

But, of course, this will not do as a defense. The essence of the FTC's original complaint was precisely that, when you have a "shared monopoly," the companies involved *avoid* price competition. We must look more closely, therefore, at the charge of "shared monopoly," both in this case, and in the context of antitrust history. Edward F. Howrey, a counsel for General Mills, has said that "the FTC has created an entirely new offense that they call 'shared monopoly.' " Similarly, a Kellogg memo on the case claims that "the FTC's case is without legal precedent. . . The idea of a 'shared' monopoly, aside from being self-contradictory, is completely unprecedented in the law."

The charge of "shared monopoly" indeed is not found in any statute. The cereal companies were accused of having violated Section 5 of the Federal Trade Commission Act (1914), which states that "unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful." The history of anti-

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trust strongly suggests that the charge of *sharing* a monopoly reflects the endless frustration that academics, officials, and lawyers have encountered in their search for a *real* monopoly. By 1880 John D. Rockefeller's Standard Oil Company controlled about 85 percent of the nation's refined oil capacity (up from 4 percent ten years earlier), but this had been achieved primarily by huge price reductions, which forced stringent efficiencies into the entire oil industry, thus greatly benefiting the consumers of oil. The Sherman Antitrust Act was passed in 1890, and Section 1 of the Act prohibited conspiracies "in restraint of trade"; Section 2 deemed it a misdemeanor to "monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize" trade. But monopolies have been hard to find, competition being apparently more deeply embedded than conspiracy in the psyches of businessmen.

In 1945 Judge Learned Hand found the Aluminum Company of America guilty of monopolizing virgin ingot aluminum, with 90 percent of the market. In doing so he was forced to exclude from the realm of relevant competition chemically identical "scrap" or secondary aluminum. Again, the period of Alcoa's dominance had seen fantastic price reductions. Aluminum dropped from $8 a pound in 1887 to 15 cents in 1941. Everyone was happy but the government's antitrust lawyers.

In 1959 two professors, Carl Kaysen and Donald Turner, wrote an influential book, *Antitrust Policy*, in which they suggested a new statute designed to break up companies with "unreasonable market power." They defined an oligopolistic market—in need of correction—as one "in which the few largest sellers in the market have a share of the market sufficient to make it likely that they will recognize the interaction of their own behavior and their rivals' responses in determining the values of the market variables." Under such circumstances, they claim, competition will probably not be at an optimum. The notion of *perfect competition*, introduced into economic theory by Alfred Marshall at the beginning of the twentieth century, has in itself brought down the scrutiny of government statisticians and economists upon the heads of market participants, with the resulting threat that any detected departure from the "optimum" may warrant corrective government intervention.

By 1968 a White House Task Force on Antitrust Policy was recommending the adoption of a Concentrated Industries Act, designed to fragment an industry in which "any four or fewer firms

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had an aggregate market share of 70 percent or more. . . ." No such Act has been passed, but the FTC's investigation of the cereal companies, whose combined market share satisfied this test, began the following year. This, then, is the tenuous legal path followed, ending with the FTC staffer's speculation that by the early 1970s there was a possibility of "declaring about one-third of the U.S. economy to be illegal."

In his book, *The Antitrust Paradox*, Robert H. Bork summarizes this path: "The history of antitrust and of other forms of regulation suggests that changes come in this way: a change in the intellectual climate, engendered by academic discussion and its popularization by reformers; the translation of the new ideas into the political sphere, assisted by the always potent dislike and distrust of large corporations; and finally the implementation of such ideas through law."

In bringing the complaint against the cereal companies, the FTC advanced the "shared monopoly" doctrine into the final stage—without any supporting statute. But, curiously enough, someone or some faction within the FTC seems to have "blinked" at the last minute. According to a former FTC staffer, the case was originally intended to test the pure "market structure" theory according to which if four or fewer companies have more than a certain percentage of the market, then they are "guilty" and must be broken up *even though no wrongdoing is either alleged or believed to have taken place*. Thus the FTC, taking this approach, would simply have said: "Four companies have 90 percent of the market: the state rests." The *verdict* in such a case would then have established whether or not such a "doctrine" was now the law.

But, according to the former FTC staffer, lawyers who wanted to win the case took over from those who simply wanted to test legal theories. And so there was added to the complaint the FTC's charge that the cereal companies had not merely a certain combined market share, but had achieved it and maintained it by engaging in collusive, anticompetitive practices that have been declared illegal in earlier antitrust cases.

Monopoly and Substitution

A charge of monopolization really makes sense only with respect to a product which cannot be satisfactorily substituted for something else like it. A moment's thought shows us that ready-to-eat breakfast cereal does not fall in this category. There are numerous other breakfast products available on the supermarket

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shelves, but these were excluded from the "relevant product market" when the FTC decided to file its suit. They include: cereal that must be cooked, or to which hot water must be added (oatmeal); bacon and eggs; grits; liquid instant breakfast (there is such a thing, apparently); instant breakfast bars (ditto), frozen waffles, muffins, pastries, milk, etc.

This is not a jocular point. It is one thing to accuse a company of monopolizing aluminum ingots, when buyers' products *must* be made of aluminum. But our stomachs are much less discriminating when it comes to breakfast. With due respect to the cereal companies, we can very easily get through the day without corn flakes—and we no doubt *would* do so if corn flakes became intolerably expensive as a result of all that monopoly pricing.

We might switch, for example, to "toaster pastries." Kellogg president William LaMothe evidently regards these items as competing with cereal even if the FTC doesn't. He testified that he maintained an "intimate knowledge" of the price of toaster pastries. Similarly, General Mills' vice president Arthur A. Schultze testified that his company introduced BucWheats in 1971 explicitly to compete with Carnation Breakfast Food. A "continuous battle" was then waged between the cereal manufacturers and Carnation, according to a Kellogg memorandum.

Nevertheless, ready-to-eat cereal and instant breakfast food were assumed by the FTC at the outset of the case to belong to entirely separate universes when it came to determining the range of products among which the companies were alleged to share a monopoly. But what was being "monopolized"? Not food, of course; not breakfast food either. Not *cereal*, even, but ready-to-eat cereal, a small subset of the domain of breakfasts!

Clearly, if a powerful enough magnifying glass is taken to the whole field of commerce, millions of "monopolies" might in this way be detected. Every new product has a monopoly for a while. Businessmen constantly seek to establish new products for which there is as yet no demand, whose supply they will initially monopolize. Patents grant monopolies. One person might easily enjoy a monopoly in the cattle trade between Kansas and Mexico simply because no one else was interested in the business. This example was actually cited in the Senate debate on the Sherman Act in 1890, and it was used to establish the point that it was not monopoly *per se* that was to be made illegal but *monopolization*—implying the active or forcible exclusion of competitors.

In any event, it is clear that the public has not been switching

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away from ready-to-eat cereal in response to unconscionably high-priced Product 19 or Rice Krispies. In 1970, the year the FTC investigation began, there were 73 billion "potential breakfasts" per year (arrived at by multiplying the U.S. population by 365) but only 18.9 billion of these involved the consumption of allegedly monopoly-priced ready-to-eat cereal: i.e., 25 percent. In 1950 this percentage had been 17.7 percent; it would grow to 35 percent of all possible breakfasts by 1975. In short, the public has not been protecting itself against the alleged monopolists by the simple expedient of switching to non-monopolized alternatives. Oligopolistic corn flakes have remained more enticing than competitive muffins.

Of course, this argument is not likely to be persuasive to FTC lawyers, since the agency's very existence is based on the belief that the public must be protected, and in its unwary and comatose state (as the FTC and other agencies seem to interpret the public mind), it will need the services of fleets of antitrust lawyers alertly detecting departures from optimal competition.

The FTC argument against the cereal companies ran as follows: the ready-to-eat cereal industry is concentrated in the hands of a few giants. These companies have then proceeded to "exercise monopoly power" by refraining "from challenging each other's decisions to increase prices." They thus obtained excessive profits. Normally, these profits would attract new competitors, and the increased supply of cereal would then drive down the price of (and profits from) cereal. But Kellogg *et al* have "blockaded" entry to the market. These barriers have taken the form of: brand proliferation, differentiating similar products, and "intensive advertising." Thus the excess profits have been maintained, amounting to a $1.2 billion "overcharge" in the years 1958–72. In short, a "highly concentrated, noncompetitive market structure" has been maintained; the companies have "shared and exercised... monopoly power in the production and sale of ready-to-eat cereal," all in violation of Section 5 of the FTC Act.

Price Leadership

Let us first of all concede that the industry *is* concentrated—without conceding that this automatically results in "excess profits" or anything else contrary to the interests of consumers. Apart from the ambiguous "issue" of concentration, the most serious FTC accusation, central to their case, is the charge that the companies have refrained from price competition, thus engaging

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in a "tacit conspiracy to monopolize" the market. This is the "cornerstone" of the FTC's case, as Kellogg has put it.

The FTC charges that the companies "were able to establish a procedure for changing list prices that enabled them to raise their prices regularly without fear that they would lose sales and market shares to one another. [This] procedure is termed by economists 'collusive price leadership.' " FTC counsel further explained that collusive price leadership is a system "in which price increases by one firm were expected to be, and in fact were, matched by others. . . ." The "leader," according to the FTC, was almost always Kellogg.

The FTC makes no charge of an actual conspiracy to achieve this result. It is nowhere alleged that representatives of the companies met together or wrote to each other in order to devise a system to avoid price competition. In the proceedings, FTC's counsel concedes the weakness of its case on this point:

> Other than a few Cereal Institute meetings and a series of events in 1956–57, there is no record of face-to-face discussions, and little evidence of express verbal agreement. The conduct subject to the understanding mainly involved forbearance from aggressive competition, rather than affirmative acts to implement a specific price or exclude a particular competitor, and the conduct varied from time to time. However, an understanding between competitors is no less a conspiracy for having been tacit rather than express, and an agreement among all of the important firms in the market to control competition is no less a monopolistic combination because it focuses broadly on general consensus rather than narrowly on specific prices or competitors.

Price "shadowing" often—perhaps even usually—does occur between competing companies. That is, when one company "leads" with a price increase, others will follow. Moreover, the dominant company in the market will tend to lead; weaker competitors will fear to lead lest their larger rival stays "low" and attracts their customers. But the dominant company will have less fear, and its competitors will tend to follow the leader, not because they are "tacitly conspiring" but because all companies in the market will tend to experience very similar cost pressures. Thus the Supreme Court opinion, *Theatre Enterprises* v. *Paramount Film Distrib. Corp.* (1954) includes the observation:

> This Court has never held that proof of parallel business behavior conclusively establishes agreement or, phrased dif-

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ferently, that such behavior itself constitutes a Sherman Act offense.

A. Neale, an English law professor who wrote a book taking a detached, outsider's look at the U.S. antitrust laws, put it this way:

> The law now seems pretty clear on this topic. A genuine "meeting of the minds" is still required for conspiracy. Moreover, in the last resort, it is still for the prosecutor or plaintiff to prove: a burden rests on the defence only in the sense that the best way of defending oneself against circumstantial evidence is always to produce a plausible alternative explanation of the facts. . . Insofar as economic theories of oligopoly postulate merely a state of mutual awareness among the parties, such that each takes account of the other's reaction, this state does not fall within the legal meaning of "conspiracy."

Thus, in claiming "collusive price leadership" the *legal* case against the cereal companies is weak. What about the *factual* case? According to the FTC, there were sixteen "pricing rounds" during the period covered by the complaint, with Kellogg the alleged "price leader" in twelve of them. Even assuming such follow-the-leader behavior to be illegal, the FTC fails to show that it occurred. The relative *magnitude* of these "price rounds" was not even established by the FTC: only their timing. In some of the "rounds," the delay in following the leader was as long as four or six months. The FTC's own expert witness, Dr. Frederick Scherer, found that General Mills' prices were clearly rising more rapidly than Kellogg's or General Foods'.

Moreover, the FTC did not even claim that there had been collusive price increases between individual, competing cereal brands. Only groups of products, arbitrarily selected from the competing companies, were said to be collusively priced. By analogy, one could say that all trees in the forest grow at different rates, but if an observer is allowed to make his own selection of individual trees, he could find one group that was growing on average, at the same rate as another group, and then claim that there was "collusion" between the two.

Ignoring Inconvenient Facts

Why were the prices of individual products not compared? "I also observed," Dr. Scherer testified, "that by and large not much attention was paid to single price changes, even without a package

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size change, so I came to the conclusion that occasional single-product price changes were really not a part of the standard price leadership-followership pattern."

In addition, Dr. Scherer found that the companies often also changed their package sizes at the same time as they changed prices. "And so I found in company documents that the companies had a little bit of trouble analyzing just what was going on and how to interpret these package changes, so I excluded them."

In the first edition of his book *Industrial Market Structures and Economic Performance* (1970) Dr. Scherer wrote: "Leadership is a means of communicating, and the process may break down if some messages go unheeded, so that one never knows what the reaction to a new price announcement will be."

Nevertheless, single-product price changes were excluded because "not much attention was paid" to them by competing firms. "In effect," Kellogg's lawyers have responded, "Dr. Scherer eliminated certain pricing activities specifically *because* they were inconsistent with collusive price leadership."

Interestingly, in the second edition of his book (1980) Dr. Scherer writes that "price leadership is not apt to be found contrary to the antitrust laws unless the leader attempts to coerce other producers into following its lead, or unless there is evidence of an agreement among members of the industry to use the leadership device as the basis of a price-fixing scheme."

No such coercion is alleged, and no evidence of such an "agreement" exists.

The FTC In Restraint of Trade

Thus the charge of collusive price leadership fails, but it is interesting to note that one of the rocks on which it founders is the discovery by the FTC that the proliferating brand names, box sizes, and packaging techniques made it extremely difficult for each company to figure out what its rivals were doing. Nevertheless, the FTC charges in another part of its complaint that "product proliferation" is an *anti*-competitive activity, constituting a "barrier to entry." Again, the FTC's own expert, Dr. Scherer, has written on this point that "when products are heterogeneously differentiated, the terms of rivalry become multidimensional and the coordination problem grows in complexity by leaps and bounds."

In short, if companies want to enter into a tacit price conspiracy, they could best do this by homogenizing their product as much as possible. The cereal companies have instead done their

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best to differentiate them. It would be hard to imagine a more difficult way to maintain a tacit conspiracy. It is the *restraint* of trade that violates the Sherman Act. But the proliferation of it has specifically been attacked by the FTC. "If the FTC is not standing antitrust law on its head I simply do not understand what the law says," University of Chicago professor Yale Brozen has written.

Once again, the FTC's own expert witness has been unhelpful to the agency. Dr. Richard Schmalensee, a professor at MIT and the chief architect of the brand proliferation theory, admitted at the trial that "I have never argued that Kellogg or anyone else introduced new products with the conscious aim of entry deterrence." He did "not consider product differentiation to be a barrier to entry into this industry," he added. As for another FTC allegation, that the difference between most cereal brands is in reality "trivial," Dr. Schmalensee conceded that this is something "best left to consumer judgment."

The idea that a wide variety of products constitutes a barrier to entry is simply a disguised version of the old notion, recurrent in economic history since Malthus, that all possible discoveries have already been made, and that the future can be extrapolated from the present. The underlying assumption is that there is a finite number of pre-existing "slots" or "niches" for products. Within each niche, an entirely rational and mostly predictable level of consumer "demand" is thought to dwell. Thus, for example, there was an All-Bran niche, waiting to be filled, and Kellogg occupied it. There was also a Grape Nuts niche—it stands to reason that people would want Grape Nuts—and Post got there first. There was a Shredded Wheat niche (Nabisco), and so on.

By "intensive advertising," the FTC claims, the cereal industry giants were able to occupy nearly all the cereal niches, thus unfairly keeping out competitors, i.e., creating a "barrier to entry."

The answer to this is that there was no demand for Shredded Wheat or any of the others before they were manufactured, advertised, and promoted. *Supply* created demand, as the supply-siders would say. In the same way, Carnation Breakfast Food created a demand that was totally nonexistent before it appeared on the supermarket shelves. This becomes clearer when one considers—as the FTC does not—the many brands of cereal that have been manufactured and advertised and placed hopefully on the supermarket shelves, but which never succeeded in creating a niche in the market place.

The argument that "intensive" advertising amounts to unfair

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competition is one of the most absurd claims made in the entire history of antitrust litigation. Advertising is itself one of the most potent tools of the very competition that the FTC says it wants to promote. The point was well made in 1976 by Quaker Oats vice president Luther C. McKinney: "Advertising was a means that permitted us to expand and become a real part of the market. We gained entry, furthered competition—and now we're being sued. What kind of sense does that make?"

If, as a result of this case, the advertising of ready-to-eat cereal were curtailed, there can be little doubt that the big winner would be Kellogg. It would be difficult for future companies to establish new brands that could compete with Kellogg's already well-advertised and well-established brands.

The Curse of Success?

The FTC charged, it may be recalled, that as a result of all these alleged misdeeds, the companies managed to obtain "profits and returns on investment substantially in excess of those that they would have obtained in a competitively structured market."

Kellogg Company annual reports indicate its return on net worth has been in the neighborhood of 20 percent a year, as against an average of all manufacturers of about 12 percent. Kellogg accountants point out, however, that the company operates with many assets which were "written off" years ago but still operate efficiently. Profits are estimated as a return on *investments*. The Kellogg investment figure thus is artificially low. If all company assets were revalued at what they would cost to replace today, a Kellogg memorandum on the case notes, "the value of the assets on our books today would be dramatically increased and our return on investment correspondingly decreased."

Kellogg made this and several other points about accounting practice in the course of the trial, claiming that "a more reliable economic rate of return" for the companies in the years 1958–70 has been: Kellogg, 11.7 percent; General Mills, 9.9 percent; General Foods, 6.7 percent. The FTC conceded in turn that Kellogg's true profit figure has been considerably lower than the figure shown in the annual reports. Still, the FTC persists, Kellogg's profits have been "above average."

Once again, it is worth repeating the point that when econometricians get together and decide what a "perfectly competitive market" should look like, they provide themselves with a justifica-

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tion for concluding that any departure from the "average" is illegal.

On this lame note—Kellogg's profits perceived as being "above average"—we may leave the FTC's case against the cereal companies and turn instead to an examination of the FTC itself. As it happens, a number of unusual developments in this protracted case have resulted in the spotlight being turned quite unexpectedly away from the accused and onto the accusers themselves.

The Federal Trade Commission, established in 1914, has five commissioners, no more than three of whom can be from the same party. They are appointed by the President for seven-year terms. To initiate an antitrust complaint a simple majority vote of the commissioners is sufficient; in the cereal case the vote was 3–2. Today, the only commissioner remaining from that time is Paul Rand Dixon, a Democrat from Tennessee, appointed by President Kennedy in 1961. His term expires in September 1981, at which time President Reagan can either reappoint him or appoint a successor. Mr. Dixon voted with the majority in the cereal case, along with Mary Gardner Jones, a Republican appointed by Lyndon Johnson, and chairman Miles W. Kirkpatrick, also a Republican, who was appointed by Richard Nixon in 1970.

After the complaint was issued in 1972, the Commission ordered a hearing, and the administrative law judge designated (by the FTC) to hear the case was Harry R. Hinkes. FTC trials are proceedings in which the prosecutor, the judge and, usually, some of the witnesses all work for the agency. Thus in this instance lawyers from the FTC's Bureau of Competition acted as prosecutors in the case. Economists from the Bureau of Economics testified as expert witnesses in support of the charges.

The Hinkes Affair

Harry Hinkes was one of the ten judges employed by the FTC's Office of Administrative Law Judges (until a few years ago they were called hearing examiners). An FTC flow chart published in the FTC's booklet, "Your FTC: What It Is and What It Does," shows the office of ALJs flowing directly into the "box" entitled "Chairman," who today is Michael Pertschuk, appointed by President Carter in 1977.

Judge Hinkes had joined the U.S. government in 1945 and had been appointed to the FTC as an administrative law judge in 1972—shortly before the case began. Administrative law judgeships are in fact created, and their tenure and pay determined, by

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the Civil Service Commission (now the Office of Personnel Management). And they can only be removed from office by the OPM (or by voluntary retirement). So these judges would seem to be insulated from pressures to find in favor of the Commission they work for (whether the FTC or any other regulatory agency). But in practice the regulatory agencies are able to obtain judges who may be presumed to be sympathetic to their own cause, because they can hire judges who previously worked at their own agency.

Typically what happens is that a lawyer who is employed, let us say, by the FTC's Bureau of Competition decides after a few years that he wants a change, so he applies to the Office of Personnel Management to become an administrative law judge. OPM then administers an examination, and if the candidate passes, he or she becomes a member of a "pool" of eligible candidates available to be hired by one or other of the regulatory agencies. It is thus a simple matter—and entirely within the bounds of the Administrative Procedure Act of 1946 establishing this hiring routine—for the agency to fill its law-judge vacancies with people who previously worked there.

This was the case with the FTC at the time of the Hinkes Affair in 1978. Judge Hinkes himself was the only exception, having previously been with the National Labor Relations Board before joining the FTC. But by 1978 all nine remaining FTC administrative law judges had "grown up" within the FTC. For example, the chief judge, Daniel Hanscom, had been Assistant Director for Evaluation in the Bureau of Competition.

In the course of some astonishingly candid sworn testimony before FTC Commissioner David Clanton in February 1980, Judge Hinkes made the following observations about the internal operation of the FTC, and about chief judge Hanscom in particular:

> As a matter of fact, at one point he [Hanscom] told one of the judges to change his decision—the Commission would never buy it. Highly improper behavior. He also, apparently, had a very strong distaste for foreigners. By "foreigners" I mean the judges who were not from within the agency. One by one they all left, including the one who was told to change his decision. I was the only one left, the only outsider left in that corps.

How did it come about that the administrative law judge hearing the Kellogg case found himself testifying before one of the

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FTC commissioners? This has come to be known as the Hinkes Affair, and it is perhaps the most interesting aspect of the Kellogg case, although it has precious little to do with the price of Wheaties.

In August 1978, Harold Hinkes (pronounced "Hinkies"), then 68 years old, quite suddenly decided that he wanted to retire. His wife had cancer and was frequently flying to Los Angeles where her treatment could be supervised by one of her sons, a doctor and a cancer specialist. And Judge Hinkes wanted to retire so that he could take advantage of a cost-of-living escalator clause for federal employees that he felt might soon be changed or discontinued.

The Kellogg trial had by this time been going on for 2 ½ years. Thanks to elaborately complex "discovery" proceedings, involving the subpoena of bales of cereal company documents, the trial had not even begun until April 1976. By the time Judge Hinkes told assistant chief administrative law judge Ernest G. Barnes that he wanted to retire, the trial record was already 36,000 pages long and 86 witnesses had testified. The clear danger Judge Hinkes' retirement decision posed to the FTC was the possibility that a new judge would have to hear all the evidence over again. In short, the whole case might have to be retried.

Judge Barnes then discussed this worrisome development with Barry Kefauver, the deputy executive director of the FTC, with chief judge Hanscom, and with Charles Dullea, the Civil Service Commission director of the Office of Administrative Law Judges. Chairman Michael Pertschuk, then on vacation in Martha's Vineyard, was also informed of the development. They all wanted Judge Hinkes to stay on the case. Mr. Pertschuk himself called Judge Hinkes and asked him to stay. "We'll work something out," Mr. Pertschuk said.

One legal avenue was to retain Judge Hinkes as a "rehired annuitant." But Judge Hinkes wasn't having any of it. This merely meant that he would be paid the difference between his full salary and his retirement pay—which he would be getting whether he worked or not. This difference amounted to $3,500. Who would want to slog away on something as complex as the Kellogg case for the equivalent of $3,500 a year?

As a result, Judge Hanscom and Barry Kefauver agreed that the only way to keep Judge Hinkes on the case was to let him retire and then re-employ him on contract to the FTC. Such a contract was agreeable to Judge Hinkes: through the simultaneous

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receipt of contract payments and retirement benefits, he would then receive a total annual compensation of nearly $72,000 a year—more than members of Congress are paid.

The contract also seemed satisfactory to those within the FTC. On August 16 Judge Hanscom wrote a memo to Michael Pertschuk advocating the contract method of keeping Judge Hinkes. "I believe we have no alternative but to retain Judge Hinkes to complete this case and file an initial decision. Assignment to a new law judge at this juncture could raise serious problems."

Chairman Pertschuk himself later wrote out a statement in which he said: "After being advised that the arrangement was legally permissable and had been cleared with the Civil Service Commission, I authorized Chief Judge Hanscom to extend the offer to Judge Hinkes."

How Independent A Judiciary?

But as it happened the contract arrangement had not been cleared with the Civil Service Commission, as Charles Dullea made clear in an affidavit sworn on October 10, 1978: "The FTC did not seek Civil Service Commission approval of, and the Office of Administrative Law Judges of the Civil Service Commission did not approve, any contract between Harry R. Hinkes and the FTC."

"Clearly, someone was lying," a Kellogg lawyer says today in reference to this contradiction.

Mr. Dullea was clearly worried by this time. He had already written a memo to the Civil Service Commission Executive Director, Raymond Jacobson, saying: "You should be aware of a situation which, if the media learns about it, could be used to reflect adversely generally on federal employees and on the Corps [of ALJs], but with particularity on one ALJ . . . The proceeding cannot, because of credibility issues, be reassigned; and in the light of the time and cost sunk into this matter, the agency cannot reasonably start the proceeding over again."

So the contract was signed, but it was illegal in that the Civil Service Commission had not approved it. Its terms clearly undermined Judge Hinkes' vestigial independence from the FTC. For example, the contract could be terminated "for the convenience of the Government, when it is determined that such action is in the best interest of the Government." In effect, the terms of Judge

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Hinkes' employment and remuneration were now set by the FTC, not the Civil Service Commission.

So Judge Hinkes continued hearing the case, and testimony continued for a couple of weeks in the fall of 1978 until Kellogg's lawyers became more and more insistent in their attempts to subpoena documents relevant to Judge Hinkes' retirement and rehiring. At one point Judge Hinkes sought to mollify Kellogg's lawyers by saying: "The judge that has been hearing this matter for the past seven years is still hearing this matter. The title of that judge is of little importance, I have found from personal experience."

But he then added, in an aside perhaps more revealing than he intended, that he was acting "exactly as has been his practice and habit without variation: if anything, *with even less control from the agency than before in many respects* — although I need not go into that at this point." (emphasis added) We are entitled to wonder, however, what that control might have been.

Later on Kellogg refused to offer a witness, saying it was "inappropriate and unwise as a practical matter to proceed with these hearings" until its motion to disqualify Judge Hinkes had been resolved. Judge Hinkes' response again did little to reassure doubters as to his total judicial independence: "I am under obligation to move this hearing along and to finish this case. Until my orders change, that's what I'm going to do. This hearing will proceed."

A week later, however, with growing FTC doubts as to the legality of rehiring Judge Hinkes on contract, the agency stayed the proceeding. Six weeks later Judge Hinkes was declared to be "unavailable," and his contract employment "of questionable validity." Thereupon Judge Alvin Berman was designated to preside over the remainder of the case. Judge Berman had joined the FTC in 1948. Before being appointed a judge in 1973, he was an attorney in the Office of General Counsel and a trial lawyer in the Appeals and Litigation Division. Practically his first action in the case was to sign an order concluding that no retrial was necessary, and that he would simply read through the testimony that had already been taken — this despite the repeated earlier comments by FTC law judges and staff to the effect that "serious problems" might arise if the case had to be reassigned. Judge Berman's position disregards the widely accepted principle of law that the reliability of witnesses cannot be assessed just by reading their testimony, but that courtroom demeanor should also be given weight.

Nevertheless, Judge Berman resumed the hearings at the point where Judge Hinkes left off. The trial is now complete and both

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the FTC and the cereal companies have filed voluminous summations of their findings of fact and findings of law. Judge Berman is, we may presume, working his way through all this material (by now well over 40,000 pages of testimony, hearings, and exhibits) and he is expected to render an initial decision by November 1981.

The decision can then be appealed by either complaint counsel (i.e., the FTC prosecutors) or by the cereal companies, to the five commissioners. It may be assumed that such an appeal will occur as a matter of course, however Judge Berman rules. The commissioners then hear the arguments on this appeal and in due course announce their decision. If it is unfavorable to them, the cereal companies can appeal the decision to the U.S. Court of Appeals for the District of Columbia and to the U.S. Supreme Court if necessary. If, on the other hand, the commissioners find *against* the FTC, the agency cannot appeal to the federal judiciary.

Judge Berman, however, did balk at conducting a further investigation of the Hinkes Affair, as later requested by Judge Hanscom on behalf of the FTC. This would involve taking affidavits from Barry Kefauver, and from Judges Hanscom, Barnes and Hinkes. Judge Berman excused himself from this task, stating that the three judges had been "not only . . . my colleagues of long standing, but I consider each of them to be my friend."

This put the ball back in Judge Hanscom's court; he had to find another judge who could pursue the Hinkes matter, but he couldn't come up with one. "In this instance the factors cited by Judge Berman motivating his withdrawal apply to all the remaining law judges in this office," Judge Hanscom noted.

Thus the task of conducting the investigation devolved upon the Office of General Counsel of the FTC, which in turn issued a subpoena to the by now retired Judge Hinkes. And that is how it came to pass that Harry R. Hinkes, retired administrative law judge, testified under oath before Commissioner David Clanton on February 28, 1980.

This, then, is the bare outline of the Hinkes Affair. There are other allegations, including the possibility that FTC officials deliberately ignored a much simpler solution to the Hinkes problem, involving reassigning him to the Los Angeles office, where, Judge Hinkes attests, he would have been content to continue working on the case without the contract. A Kellogg memo on this matter hints at the possibility that the FTC rejected this solution because they feared that Judge Hinkes, off on his own in Los Angeles,

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with his pay and pension protected by the OPM, would become too independent; and that they preferred Judge Hinkes to continue working on *their* terms. But Judge Hinkes' allegations creating this suspicion are not corroborated by other parties to the dispute, which must be considered to be unresolved on this particular issue.

Nevertheless, what does emerge clearly from the Hinkes Affair is the extraordinary degree of interlock and intercommunication within and between the FTC's administrative and judicial branches. For a federal agency to negotiate an administrative law judge's contract is comparable to a district attorney negotiating a state judge's salary, with the understanding that the judge could be dismissed by the D.A. at any time.

If the cereal case has done nothing else, then, it has, through pure accident and the subsequent filing of Freedom of Information lawsuits by the companies, allowed some daylight to penetrate the normally obscure functioning of one of our more important regulatory agencies.

Competition and Coercion

The cereal case has now endured through four presidencies; through Nixon's second term, Watergate, the fall of Vietnam, Ford's presidency, Carter's, and now into Reagan's. Federal Trade Commissioners have come and gone in the intervening nine years. All of the FTC lawyers who originally supported the complaint against the companies have by now left the agency. The senior attorney on the case, Anthony Jones, joined the FTC in October 1973.

Kellogg estimates that defending against the case has cost the company one million dollars a year; the figure for the other companies is probably comparable, and the money expended by the FTC can hardly be much less. Throughout all this the public-at-large has continued buying ready-to-eat cereal, undeterred by the FTC's claim that their breakfasts could have cost them *one tenth of a cent less each* if only the cereal companies had not successfully maintained a shared monopoly.

Perhaps, in retrospect, the most striking feature of this case is the tremendous disparity that exists between the instruments of persuasion available respectively to the FTC and the cereal companies. No one can compel you to buy a box of corn flakes. No packet of Product 19 can reach out from the supermarket shelf and compel you to place it in your shopping basket. Cereals are

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bought voluntarily, and the companies that make them exist through the consent of consumers, who perceive the companies' products to be worth the price asked.

The FTC, on the other hand, does not *ask* anything. It coerces, and could not exist without the power of coercion. The agency *compels* companies to answer to charges in court. No company, no matter how "powerful," can compel anyone to buy any of its products. In this sense, then, the FTC has a monopoly—a monopoly on coercion. But it does not have a *total* monopoly, because the Justice Department's Antitrust Division can also coercively hale companies into court.

The FTC therefore does not have a complete monopoly. It has a shared monopoly.

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Over There

*Chinese Defenses**

As the West's window of vulnerability opens in the years ahead, so China policy, or triangular politics, will assume even more importance than has been the case of late. The enemy of my enemy is my friend. This traveler-writer, who happens to be a professional defense analyst, is neither euphoric nor pessimistic over the putative benefits to Washington of a burgeoning security connection with Beijing (Peking). On balance, the greater danger today lies in the possibility that the United States will be too cautious, not too active, in its Beijing diplomacy.

It is possible, though not probable, that untypically skillful Soviet diplomacy would cause a quite dramatic improvement in relations between Moscow and Beijing. There is little of real substance dividing them. China needs external peace for (at least) a generation while it modernizes at home—the Soviet Union can provide that. The border disputes in Heilongjiang (the Northeast) are symbolically, not substantively, important. The Soviet Union is not known seriously to lust after Chinese territory (even in Xinjiang, which has a major oil field awaiting development), while the Chinese, the aggrieved party in the border dispute area, seek only "symbolic" rectification of the boundaries established under the "unequal treaties" of 1858, 1860, and 1864. China needs more cultivable land; it does not need a fraction of the high Pamirs or even the vast barren territory between the Ussuri and the coast. For reasons of national pride and to assert sovereignty, Beijing wishes to register a historic, political point *vis à vis* the lost territories. It should not be beyond the ability of the Soviet Union—sufficiently motivated by a desire to purchase a much improved measure of security on its Eastern landward flank—to meet minimum Chinese requirements.

It is, of course, true to claim that Sino-Soviet border disputes come to life only as issues dependent upon the general political tenor of Sino-Soviet relations. In the 1950s, during an era of

*The author has recently traveled in China and has had extensive discussions with Chinese defense officials in Beijing, Harbin (Heilongjiang) [Manchuria]), and Urumqi (Xinjiang).

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friendship between the two countries, "the unequal treaties" imposed by Czarist Russia on China were not a live political issue. While Sino-Soviet mutual suspicion (and ethnic hostility—on the Great Russian side) would persist, it is worth recalling that Bulganin and Khrushchev, in 1955, were able to mend many of the more obvious and potentially dangerous fences with Yugoslavia. If a new Soviet leadership in the 1980s were willing to declare quite unambiguously that the People's Republic of China was not a member of the Moscow-oriented socialist commonwealth, and hence was not a potential beneficiary of the "Brezhnev Doctrine" which rationalizes fraternal assistance in time of (Moscow judged) need; if that Soviet leadership were willing at least to consult with Beijing with respect to policy action in countries proximate to direct Chinese interests (say, in Afghanistan and Pakistan); and if Hanoi could be reined in—then the terms of the grand strategy debate in Beijing could well be turned around to profound American disadvantage.

Chinese rhetoric on the subject of Soviet hegemonism is so strong and consistent—in public and in private—that it is easy for American travelers in China to assume, quite uncritically, Sino-Soviet hostility as a fixed point in the universe. But by historic standards of comparison (say Polish-German, Polish-Russian, Franco-German, etc.), Sino-Soviet hostility is not particularly impressive in its systemic, enduring features. Americans who have not visited China may not appreciate the fact that there is very little, if any, popular hatred of the Russians, *qua* Russians, in China. The current Soviet *government* everywhere is vilified, but Stalin's portrait is widely displayed across the country, "because he was a friend of the Chinese people," while in Harbin—the capital of Heilongjiang Province (in Manchuria)—which was occupied by the Russians from 1945 until the early 1950s, the preponderant local attitude (insofar as a visiting foreigner can discern) is one of gratitude for Russian assistance in the ejection of the Japanese. (The Soviet war memorial in Harbin does not need to be guarded against defacement.)

Chinese anti-Soviet rhetoric and policy reflect, very simply, a genuine Chinese belief that the Soviet government has ambitions to exercise hegemony over China. National pride, even above careful calculation of material national interest, is the mainspring of China's foreign policy. Whatever *he* may have thought were the reasons for his success, the contemporary, almost semi-official, Chinese view—to the effect that Mao succeeded because he, and

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his organization, managed to mobilize the *national* feelings of the Han (Chinese) people—is almost certainly correct. The Chinese people did not sign on for a great social-economic experiment; they signed on to throw the foreigners out of China, and to keep them out thenceforth. Mao is an authentic Han national hero—that he happened to be a communist theorist is, in the long run, very much a secondary element.

The point to stress is that, to date at least, the government of the PRC has not consciously exaggerated a "Soviet threat" for the purpose of fostering garrison-state discipline at home. Unlike the condition of the insecure multinational empire of the Soviet Union, the PRC has no need of (real or invented) foreign enemies to provide the excuse for domestic vigilance.

Prudence and Geopolitics

Elementary geopolitics, a mixed historical experience, and simple prudence, ensure that Beijing and Moscow are unlikely ever to achieve anything more substantial than a tactical *detente* or *entente*. However, tactical convenience is the engine of short run foreign policy moves and (thinking back to August–September 1939) was sufficient to free Hitler's hands *vis à vis* the Soviet Union, thereby enabling him to take action against Poland. If Washington plays the role of reluctant suitor too convincingly in the 1980s, a very pragmatic leadership in Beijing may be tempted to try to strengthen its hand by engaging in some light dalliance with Moscow. If that attempt were to correspond with a phase of unusual common sense in Soviet foreign policy direction, the result (albeit fragile) could upset fundamental Western calculations of its near-term security condition.

The discussion above does *not* rest upon, or constitute, a prediction concerning a tactical Sino-Soviet *rapprochement*. Instead, it reflects a personal unease concerning the true depth and substance of Beijing-Moscow hostility (particularly when viewed in PRC perspective), and a conviction that too many Western commentators are ready to regard as permanent that which may be only a passing phase. To recap, official (and unofficial) expressions of Chinese hostility toward Soviet hegemonism are not feigned—they are genuine. But, this writer has little difficulty designing a Soviet foreign policy initiative toward China that would stand a very fair prospect of turning China from being a possible, or even likely, co-belligerent with NATO in any East-West general war,

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into a near certain benign neutral. We cannot afford to assume that Soviet foreign policy toward China will always be foolish.

As of early 1981, the PRC expects, at some point, to be attacked by the Soviet Union. War is seen to be inevitable. Some Western officials and commentators appear to have genuine difficulty appreciating the paradox that the PRC both recognizes its (undeniable) military weakness *vis à vis* the Soviet Union, yet does not believe that it can be defeated. Quite literally, the PRC does not fear defeat. This author has seen some of the People's Liberation Army (PLA) and has discussed its shortcomings with officials in Beijing, Harbin (Manchuria), and Urumqi (Xinjiang). The deficiencies of the PLA are all too obvious. It encompasses (along with Air Force and Navy elements—in the same organization) the largest army on earth (at 3.6 million—which excludes the militia, of different categories, totaling close to 20 million), but it is deficient in mobility, in firepower, and in logistics. In short, it is the mass, infantry-heavy army of a still poor, developing country. The current national development policy of the PRC, "The Four Modernizations"—industry, agriculture, science and technology, and military—has military modernization at the end of the line. The PRC is not force-feeding the PLA at the risk of skewing Chinese modernization. Chinese foreign policy, at present, is one of speaking loudly and carrying a small stick, and encouraging *others* to stand firm against Soviet imperialism.

Chinese optimism concerning war with the Soviet Union rests upon an appreciation of (a) geography, and (b) human national-patriotic assets. The Soviet Union could defeat the PLA any time the PLA chose to stand and fight. But, the Soviet Union—given its other security problems—has only finite military resources available for the conquest and (*permanent*) occupation of China. The Soviet Union, at considerable military cost, could seize Xinjiang, Manchuria, and Northeast China, including Beijing, and establish, by force, a compliant "Chinese" puppet regime. But, what happens next? There is no good reason to believe that the Soviet Union in the 1980s or 1990s would find China any easier to subjugate than did the Japanese in the 1930s and early 1940s. Even nuclear weapons would not help very much. Only 20 percent of the Chinese population (of roughly 1,024,890,000) is classed as urban. The PRC, as basically still a peasant economy, could lose its major cities and continue to function as a national entity. Fairly elementary civil defense shelter construction in the countryside would negate most of the potential damage of an intended Soviet "assured destruction" attack.

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Supposedly sophisticated Western analysts have long poured scorn on the idea of "people's war." They are wrong. The PRC continues to adhere to the strategic concept of "people's war" not because it has ideological sanctity, but rather because it is a necessity—and a very sensible one at that. Notwithstanding communist mythology, "people's war" is a very long standing Chinese peasant tradition. Given the extent and population density of (some) Chinese territory, it is a firm guarantee against foreign conquest, even in the nuclear age. Moreover, of course, the PLA currently has no sensible alternative. The PLA probably is 20–30 years away from a technical condition where it could meet the Soviet Armed Forces in open battle with a reasonable prospect of holding its own. The current intention is that the field army (Main Force divisions) of the PLA, deployed—by and large—far forward, would wear down an invader, purchase time for rear-area defense preparation, and then provide a professional stiffening for local force and militia units operating more or less in a guerrilla mode.

It is important to recognize that "people's war" is both a permanent aspect of Chinese strategic culture, and a defense policy necessity pending military modernization of the PLA's field army.

Soviet general staff planners confront a nightmare in their China-oriented exercises. They can guarantee military success at the outset, but they cannot possibly provide military solutions for the middle and end games. They can promise to install a pro-Soviet Chinese government in Beijing, but that government will last only so long as Soviet bayonets are present to defend it.

Beijing policy-makers do not need to be told that the bedrock of their current defense confidence, "people's war", would be horrificly expensive in Chinese blood and other assets. Their objective is to modernize Chinese industry, agriculture, and technical competence—as a sound basis for military modernization—so that Soviet defense planners will not discern any easy options for success, even limited ones.

The surest way to encourage Beijing to reconsider the level of its very publicly expressed hostility to Moscow, would be for the United States to continue to appear weak and indecisive.

Colin S. Gray

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America's Uncertain Allies

Europeans are proud to proclaim that their slow, almost imperceptible, process toward unification was fired by noble and lofty motives. Among them, the moral duty to save Europe's soul, to preserve and enrich its common heritage, to preserve the peace, thus benefiting not only themselves but the whole world, and to provide a vast enough market in which to achieve (and perhaps surpass) an American style affluence.

In reality the mightiest motives prodding reluctant Europeans are fears. Without fears the hope of welding all their nations into one coherent confederation would still be, as it was for centuries, a savant's, statesman's, saint's, or poet's dream.

The First, most evident and most publicized of these fears is the one provoked by the Soviet menace. Why is the USSR concentrating so many expensive weapons, improved and modernized all the time, as well as so many divisions, fully manned, well trained, and ready for action, only a few hours Autobahn ride from the heartland of Europe? Why does the USSR point west with such a vast array of nuclear weapons? Why is it aiding and abetting (as well as heavily financing at times) disciplined and docile Communist parties in the West?

The Second Fear, although almost as powerful a motive, is never admitted in public. Nobody writes about it. It is the Europeans' Fear of Themselves. They know that each of their nations, even the most timid, unadventurous, and sober-minded — even the Swedes — were at one time or other mesmerized by a Great Leader, swept by new dazzling political or religious ideas, inflamed by demented imperial hopes or dynastic ambitions.

At some point in history, each European nation armed itself to the teeth and hurled its armies heroically from Madrid to Amsterdam, from Paris to Moscow, from Berlin to Moscow and on, to Bordeaux, leaving ruin, rotting corpses, plagues, and famine in their wake. Only an iron-bound continental unity, it is hoped, could exorcise the European curse once and for all.

European experts are well aware of the Third Fear. It is the Fear of the United States, the fear of what the United States may do or may *not* do tomorrow morning. Is it interventionist or isolationist? What will the next President do? Fear, of course, is an inadequate word. The omnipresent feeling oscillates

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between simple apprehension, malaise, or trepidation, in normal times, and real fear, panic, or terror at critical times, at the turning points of history.

This is extremely important because the United States is notoriously the greatest superpower in the world today, the greatest superpower of all times. Europeans could not do without it, even if they coalesced into one solid unit. It is their biggest partner in all fields, their indispensable ally and protector. They owe their freedom to the balance of power which has preserved the peace. Without the presence of American divisions on the Elbe and in Berlin, or without the American aircraft carriers and atomic arsenals, Western Europe would probably have been neutralized long ago by the USSR, turned into a large Finland or Austria, if not incorporated outright in the Eastern Bloc, possibly for a while (in the beginning) as the Quasi-Capitalist Sector of the Warsaw Pact.

All this does not assuage the Europeans' fear of the United States. It increases it. They know that, in an emergency, little can be done to persuade or encourage American leaders of the best course to follow (that which common prudence, centuries of catastrophic miscalculations, and a skeptical knowledge of human nature would dictate), or to dissuade them from precipitously taking some generous but dangerous, irremediably fateful decision. Or, at other times, persuade Americans to abandon their traditional apathy, dictated by American optimism (the faith in the happy ending), to keep adequate armed forces ready for all eventualities, not to be perenially surprised by history, and to do whatever is necessary in time to prevent serious developments in the future.

The whole thing was pithily put in a few words by Helmut Schmidt (or so, in journalists' cafe's from Bonn to Paris to Rome, he is said to have said): "Americans are what they are . . . But they are the only Americans we have."

The last few years have sharpened this European feeling of futility. The Americans' moral crisis after Vietnam and Watergate; their new doubts about their nation's infallibility and invincibility; the rivalry between the White House and the Hill; the erosion of the President's authority and of his capacity to react promptly and vigorously in emergencies; the calamitous propensity to make public (or to leak) secrets which should be jealously guarded (some of them vital to Europe as well as the

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United States); the youthfully enthusiastic belief in the magic power of detente followed by excessive dejection; the loss of military supremacy; plus the economic slowdown; the patent incapacity to tackle the energy crisis; the escalating inflation; the consequent decrease in the value of the dollar – all these things have diminished the American authority in the world and its capacity to lead.

America: A Fickle Ally?

More disturbing is an evident consequence of all that precedes, which is (as seen from Europe) the meandering conduct of American policy, the lack of a clear design, the titubation which annuls today what was said yesterday and might be confirmed again tomorrow. A "ranking representative of the Bonn government," sent to Washington to prepare Chancellor Schmidt's visit to President Jimmy Carter, was quoted as saying: "We don't trust you [the Americans] any more. Your policies are too inconsistent, your actions too indecisive."

These disproportionately harsh words, so undiplomatic and so un-European, were evidently not the result of sober cogitation, but the emotional outburst of a disenchanted man, a lover of the United States who felt himself betrayed. He had probably put excessive faith in an idealized America and felt personally affronted and profoundly wounded by all the events which shattered his illusion.

It must be admitted that recent American behavior has been enough to baffle and embitter the most enthusiastic *innamorati* of an imaginary United States. One could quote the mistaken vote in the U.N. Security Council and the sudden abandonment of the neutron bomb project after the Germans had accepted it (with great inner struggles). One could quote President Carter's declaration that the presence of Soviet troops in Cuba was "unacceptable" and his acceptance of them a few days later; the fact that he called the invasion of Afghanistan "the most serious crisis since World War II," then, later, merely a "potential" crisis; his confession that his opinion of the Soviets had changed more in a few days than in all previous years. The list goes on.

What possibly broke the back of the "ranking representative of the Bonn government," whoever he was, was the discovery that, since decisions are reached in Washington through a com-

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plicated maze of contrasting sources of power, it is almost always technically impossible for Americans to consult allies or friends while the process is going on, or to modify whatever Presidential decision has already been made according to foreign suggestions. There is, therefore, no hope ever to devise a mechanism of rapid consultations to arrive at commonly agreed moves.

All the President can do now (and does) is send the biggest personages he can find to console puzzled and wounded European statesmen, placed once again in front of one more *fait accompli*. This, of course, was also true but less evident a few years ago, right after the war. But then America was indisputably the richest, strongest, most courageous power, with few but clear and practically unchanging ideas, shared or accepted by both political parties and by the European allies, a country led by powerful Presidents who could make firm decisions.

The incapacity of Europeans to understand the United States is very old, as old as the Republic. At the same time, Americans never really understood Europe and the various European nations, which they either idealized in their imagination, or looked down upon with pity and contempt and perennially tried to improve and reform. To be sure, this mutual misunderstanding, this wall of fog, was not very important when the United States was a small, picturesque, idealistic but impotent country across the ocean. It merely interested a few American novelists, Henry James above all. Since the end of the nineteenth century, World War I, World War II, and in the last few decades, the problem has gradually grown to the point that today the very survival of the world depends on a clearer understanding between the two continents, and, in the end, on the Europeans' finally discovering what the United States is all about.

Through European Eyes

Europeans (even those who have lived in the United States) believe America is a Nation-State comparable to their ancient Nation-States: Spain, France, Great Britain, Hungary, or Russia. They are not entirely wrong. It is, of course, moved at times by the hopes ambitions, and selfishness of a traditional Nation-State. But without a humanitarian justification the United States is powerless.

Europeans are also baffled because they are ignorant of the

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real mechanics of the American government. They think the United States is ruled from a central point, where goals are coldly determined, contrasting interests are harmonized, and plans are drawn up.

To be sure, there are staffs of competent officials and there is a central point, a clearing house where goals are determined and plans are drawn up. It is the White House. The White House staff, which is the real government, changes with each new President. Many of the titles and tasks of his aides are invented anew every time. On his first day in the office, in an empty White House, the President has difficulty knowing what was done or decided the day before. Perhaps, the only personage who represents continuity is the butler. He appears when the new President rings the bell, but he can merely provide him with coffee, tea, or a light lunch.

Most important (from our point of view) is the fact that Americans tend to disregard most precedents. They tend to believe every problem is new, born that day, and that it can be solved only by a new approach. This is solemnly confirmed by the motto on the great seal of the Republic, which is engraved on the back of every dollar bill. The motto says "*Novus ordo seclorum*" or "History begins with us."

All these well-known facts, which could be learned by reading a few handbooks and consulting almanacs or encyclopedias, are unfortunately unknown to European statesmen. They are deceived by the Nation-State appearance of the United States. It has a glorious flag, a practically national language, armed forces, a culture of its own, and its revered currency. Its people are proud of their tradition, brave, and patriotic. It is represented everywhere by embassies. It does ordinarily behave according to international etiquette.

But once in a while, mostly in grave emergencies, the U.S. startles observers by its unpredictable decisions. Europeans do not know that Americans must, when the chips are down, obey their deep-rooted moral commitments (without which they would not be Americans). They cease to be frail human beings like all others, they forget the disreputable tendencies of selfish Nation-States, and become the idealists of whom the founders dreamed, an example for the world to follow.

At this point, when Americans impersonate Americans, they scare the Europeans out of their wits. They no longer understand

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them, and think they are "dangerously naive." When Georges Clemanceau read President Wilson's First Point ("Open covenants openly arrived at") and learned of the President's radiant hopes to solve most of the world's problems at one fell swoop, he suspected (and told his intimates) that President Wilson was mentally deranged. Of course he was not. He was merely trying to be faithful to the ideas of his country and of his youth. He believed problems could be solved, man could be perfected, the world could be made a better place in which to live for more and more human beings, and wars could be avoided forever. His efforts (and those of his countrymen for generations) have by no means produced all the desired results, but gradually, almost imperceptibly, the world is being transformed by American efforts, and, here and there, it could be actually considered a better place in which to live.

Luigi Barzini

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The Intelligent Woman's Guide to Feminism

MIDGE DECTER

When the dust of this present age has settled, and our present turmoil becomes a subject for recollection in tranquility, let us imagine that some gifted young historian has set for himself the task of accounting for the attitudes and behavior of the affluent bourgeoisie in the fateful later decades of the twentieth century. Surely he will find (perhaps in deference to my subject, I should say "he or she" will find) that not least among the puzzlements of the period is the passion with which a group of the freest, most vital and energetic—and most economically and physically privileged—young women in the history of the race rose up and proclaimed themselves to be the victims of intolerable oppression.

Perhaps even more puzzling in retrospect will have been the willingness of their contemporaries to affix to their uprising the name of feminism. For feminism properly understood is a view summed up in the simple proposition that women are the equals of men: that they are as intelligent, as competent, as brave, and above all, as morally responsible. It was this proposition, for example, that earlier in the century secured for women the right to vote, to educate themselves, to have and to spend their own money, and in general, to take upon themselves a share of the burden of civic responsibility. And yet easily the single most salient and unifying feature of the movement that erupted in the 1960s and that claimed to speak exclusively both to and for the problems of women—the movement that formally dubbed itself Women's Liberation—was its characterization of the condition of women as that of a pervasive and nearly universal inferiority. Despite any illusory appearances to the contrary, declared this movement, women everywhere were to be found mindless, helpless, cowering in the face of masculine power, their lives held in thrall to the whims and fashions of a manipulative culture. When their mothers, prior victims of male dominance, told them to marry, they married. When the needs and exigencies of a capitalist economy decreed that they must consume, they devoted their lives to a mad, spiralling round of consumption and to the breeding of a vast cohort of new consumers. When men, through the

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agency of a deceptive theory of mental health, sought a more plentiful supply of compliant sexual partners, women dutifully offered up their bodies in slavish service to something called the sexual revolution. And as for the less private side of life, when a contemptuous cultural and educational establishment sought to relegate them to professional non-achievement, they passively accepted the idea of their inherent incapacity to perform men's work. Thus nothing less than a complete overturning of all traditional social, sexual, and economic arrangements would suffice to bring women into a condition of full equality. The removal of all hindrances to this condition would not be enough. Women themselves must be altered, revolutionized. And with them, of course, men and the society that men have exclusively created.

This (to say the least) odd form of feminism fundamentally addressed itself to three areas of women's lives: to work, to marriage, and to motherhood. It also, naturally, addressed itself to the area of sex, but what it had to say on *that* entangled subject is very nearly literally unspeakable. For reasons of decency in public discussion, it need not detain us here—except to observe that in the end the movement has made the subject of sex almost indistinguishable from the medical practice of gynecology.

In each of these areas the movement provided an appropriate theory of women's victimization. In the realm of work, for instance, the main emblem of the status of women as an oppressed class was said to be the household. The age-old responsibility of women for the day-to-day physical well-being and welfare of the family, said the movement, had been the major means not only for keeping women away from all important sources of power in society but also for dulling their minds and souls into acquiescence with this state of affairs.

In support of its theory, the movement embarked on a series of descriptions of the life of women at home unparalleled for their imagery of bleakness, depression, and unceasing, hopeless, thankless, fruitless toil since those nineteenth century reformist investigations of life in the workhouse.

In what might be taken as the founding document of Women's Liberation, Betty Friedan's *The Feminine Mystique*, the author likened the condition of housewives to that of certain veterans of World War II who had suffered gunshot wounds to their brains. Since one of Mrs. Friedan's more engaging habits as a public figure was the introduction of herself on innumerable important media occasions as the person graduated from Smith College with

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the highest grade average ever attained in that august institution, she herself had obviously escaped quite handily from such a fate. Yet her account of the lot of the woman whose job was to run the house and look after the children was by no means the most lurid the movement was to produce.

That care for the household was a lot many women chose to have; that they deemed it important and, yes, rewarding; that they took pride in discharging its duties well; that it even afforded intermittent pleasure, was not—anyway, not invariably—denied by the movement. But the choice, the pride, even the pleasure—if such there should misguidedly be—were themselves only further evidence of how thoroughly, and how dismally, women themselves had assimilated the role imposed upon them by an oppressive society.

But if housework was the main emblem of women's inferior status, those who managed to evade it by pursuing careers were very little better off. For even in the office women were, with few exceptions, consigned to those tasks defined as "women's work." In addition to the despised secretaries—themselves hardly distinguishable from housewives in their obligation to be of service to others—even executives and qualified professional women were hopelessly identified with functions that were no more than extensions of the demand that women remain selfless, sympathetic, and attentive. That is, they tended to be social workers, nurses, schoolteachers, and therapists of various kinds.

It might, of course, have been asked, and specifically from a feminist point of view, whether the professions in which women tended to cluster and the work they tended to be drawn toward—called in tones and contexts of derision by Women's Lib the "helping professions"—did indeed enjoy lower status, or whether the movement itself held it to be inferior *because* it was work performed by women. Significantly, it wasn't asked.

Whatever the answer to this question, we have seen with what incredible rapidity the movement's constituents, under its goading, commenced in large numbers to enroll themselves in such formerly male-dominated professional schools as those in the law and medicine. (Would Women's Lib in the future say that once again they were doing what they were told? Might there one day come to be a derisive attitude toward the law, for instance, because so many women are now to be found there?)

I have left out one step in the process, by now so evidently well advanced, of creating a so-called new equality for women in the

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realm of work. For if, as was claimed, women had been denied equality of opportunity to take their place alongside men at the professional workplace, it was also claimed that they had also been denied the full development of their capacity to do so. The evidence was clear: women had not attempted and been denied admission to professional schools, or to executive training programs, or to candidacy for public office; they had not in any significant numbers applied for places in these precincts of power in the first place. Women were roughly 50 percent of the population. The only suitable test for the *true* achievement of equality, then, would be their ultimate ensconcement in half the positions of power, status, and wealth.

It would be pointless for their oppressors to argue that perhaps they had not *wanted* such power and prestige, that other ambitions and other values had in a majority of cases come first. Their very adherence to these other ambitions and values, such as a desire to marry and a disinclination to compete with the men they married, was a sign of how the culture had twisted and incapacitated them. By now they needed more than a change; they needed preferential placement.

This argument, that society-bred fears and incapacities entitled those who suffered from them to a prior guarantee of places in schools and jobs to bring their number somewhat into line with their proportion of the population, had, of course, already become familiar. It was the definition of justice and equality offered on behalf of the blacks by *their* equal rights movement. Its expression in terms of policy was affirmative action. Now, without going into a full discussion of the policy of affirmative action and the distress it is causing both to society as a whole and to the individuals said to be benefitting from it, one thing is quite clearly inherent in the logic of this policy and in the implicit thinking of its advocates: and that is, that it is the very opposite of an assertion of equality.

We may pass over as beneath comment the social and intellectual morality of the Women's Lib movement's equating the position of blacks with that of middle-and upper-middle class educated women in the United States. It nevertheless remains to be said that the demand for affirmative action for women is the expression of something less than complete confidence in women's capacity to compete up to the full extent that they wish to compete, and, as such, bespeaks something considerably less than a firm feminist conviction.

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A graphic illustration of Women's Lib's lack of confidence in its own claim (that but for a dominant sexist culture women would be equal to men in everything) is the proliferation, under its aegis, of a new women's literature. A visit to any newsstand or bookstore will make the point: women's magazines, magazines for working women, for professional women, for angry women, for chic women, abound. Moreover, in the section devoted to women's concerns that is now mandatory in every bookstore, one finds endless tomes devoted to women's medicine, women's psychology, women's novels, women's history, women's literary criticism—most of them comprising the reading list for movement-created and -administered programs of women's studies taught by affirmative action professors for the purpose of creating a comfortable ghetto for their female students. Consigning a young woman in university to the department of education or social work is as nothing (as a means of giving her the message that she dare not venture) compared with urging her to preoccupy herself with her own feminine experience and giving her college credit for it. Here again, the so-called new feminists have copied the blacks, and with much the same psychic effect: namely, an inner corroboration of the idea that they cannot be fitted into the world and the world must instead be fitted to them.

In the second area for which the movement has provided a theory of women's victimization, namely marriage, the theory is hardly less grim. Marriage, the movement has told its constituents, is merely an arrangement created by men for the provision of cheap labor and free sex. The contribution of women to that arrangement, therefore, is nothing more than a form of slavery or at best, indentured servitude. Marriage has been maintained by terror—the fear of actual male violence, the fear of being abandoned by one's husband without protection and without resources, and the fear of social contumely. Wherein, the philosophers of the new feminism have asked, does the married woman differ from the prostitute? Both, after all, exchange their services for money. Equality can only be established in marriage when that institution has been "redefined." ("Redefinition" is in general the movement's mystical, cabbalistic process for hastening the arrival of the Messiah.) Thus husband and wife can only become equals in the movement's vision of equality when marriage has been redefined as a relationship in which there is no exchange. That is to say, in current fashionable parlance, when neither party to the marriage has a separate distinguishable role to play in the life of the other.

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Translated into plain English, what this boils down to is that the only kind of marriage not demeaning to women is one in which the woman, too, will be entitled to have a wife—without at the same time having to be a husband. But with very few exceptions, women *wish* to marry and to be wives, sooner or later—and if there is any doubt on this point, look around you—so if this notion of marriage is in force, women are left with the sense that to behave in a womanly way toward their husbands is to suffer only humiliation.

The result in the real world has been the far from edifying spectacle of marriages that have become a form of bookkeeping: What have you done for me today, and does it constitute a full and exact equivalent for what I did for you yesterday? A marriage without roles, as anyone who has witnessed the phenomenon at close range knows, has become not a mutual recognition of the equal importance to the enterprise of what both partners to it contribute—but a court of litigation. With respect to the issue of feminism in particular, it means that the feminine function in marriage is to be avoided by both husband and wife—or, since in actual life it can't be avoided, is to be regarded by both partners as only a collection of nasty chores to be got out of the way with as much dispatch as possible. Aside from what this has done to actual marriages—namely injected pure poison into them—it hardly conduces to respect for the womanly, either on the part of women themselves or on the part of the men with whom they live. By any meaningful reading of the term, this is a strange form of feminism. Indeed, ironically—or not so ironically—it has done a great deal to introduce and exacerbate the very conditions it claims to be responding to, that is, male violence and abandonment.

One of the consequences of Women's Liberation, and in particular of the hostility toward men it engenders, is that it has relieved men of the responsibility for being proper husbands and fathers. That is why from the very first we have witnessed the otherwise astonishing phenomenon of women insisting upon the most terrible untruths about men and of men offering not one word of reply. When it was said to and about middle class American women that their husbands beat them, cow them, and kick them around (although, as everybody knows, what really goes on in the households of the educated middle class is quite opposite), not a single man stood up to say: "Wait just a moment. I have been working hard and under considerable stress to support my

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wife and family. Is that a just thing to say about me? I have tried to be decent and responsible, and *this* is the thanks I get?"

But there was no male resistance whatever to the indictments of Women's Liberation. This otherwise inexplicable passivity can only be understood in terms of the movement's pernicious appeal to the apparent short-term interest of men. If women were refusing to accept the burden of womanliness, they were providing men with a perfect opportunity to be rid of the burden of manliness. After all, manliness can also be called a burden as onerous as womanliness, if not more so.

So it is that more and more men are ceasing to be true husbands and fathers. Here we have the real consequence of the so-called role-less marriage. It is after all quite easy for a man to carry out the garbage and do the dishes and even wash the diapers. These are as nothing compared with the weight of being a real husband. Thus in the course of letting themselves off the hook of responsibility, women are also, of course, letting men off that same hook. Thus wives *and* husbands are currently engaged in avoiding all the things they call onerous but that are in fact life-giving and health-giving.

Last but not least of the movement's theories about the lot of women is the theory of motherhood. Having to be a mother, as that "role" is traditionally "defined," says the movement, is the highest form of oppression of all. Women's Lib's pronouncements on the daily life of caring for children—on what it is like to spend time with them, look after them, and above all on the experience of the abiding, passionate, selfless attachment to them that motherhood entails—surpasses even its description of housework for bleakness and resentment. Babies are no more than a daily collection of soiled diapers. Toddlers are no more than daily imprisonment within four walls, or enchainment to a park bench. Schoolchildren are no more than a daily round of running exhausting errands—fetchings and carryings, mealtimes and quarrels. Above all, the passions and devotions of motherhood are no more than the imposition of the needs of the species on smothered and starving individuals. That children by themselves offer a considerable amount of meaning to life—I will not even mention pleasure—is a notion almost lost in the feverish mists of the new feminism.

Of all the ideas about the condition of women now circulating like the spores of an epidemic infection, the movement's theory of motherhood has, of course, taken least hold. Even for those intent

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on rejecting the idea that there is such a thing, a woman's nature simply will not be denied. Women continue to long for children, and continue to act on that longing. Even against considerable odds—even when marriage has become, on the whole, a light-minded undertaking, even in direst poverty, even in the face of a massive public campaign against their doing so, and even under those circumstances where men have been refusing in droves to stick around and be fathers—women continue to seek to be mothers. We see around us now, for instance, that cohort of women who have held out into their thirties, largely under the influence of the women's movement and related pressures, and who are now rushing around to get in under the deadline of what is called the biological clock. These women spent their twenties pursuing their careers (more often pursuing *themselves*) and, in *that* pursuit avoiding all commitment to the irrevocable. Now, some of them quite advanced in years, they feel the imperative of their unique nature as women and will not, whatever else happens to them, remain childless.

So the movement has lost on the score of this ultimate oppression, the oppression of motherhood, for which women will continue to volunteer. But the problem does not end there. In its teachings on the condition of women the movement has nevertheless sown the conviction that to live as women are destined, and thus privately compelled, to do—in no matter how attenuated a style—is to be consigned to inescapable inferiority. How many of the babies being born to this new cohort of mothers will be thrown into day-care centers—their contribution to meaning muffled, their pleasures lost—in order that their mothers may continue to deny any special virtue and value to womanliness? Heedless men and self-hating women have permitted this denial to go by the name of feminism, but it is in fact simply the hatred of women. In other words, the real sexism. For to call womanliness victimization is an expression of contempt for women more profound than any ever heard in the locker rooms, sales conventions, and executive suites of the old male-chauvinist world.

Why, then, have so many women embraced this peculiar assault on their value as women? The reason is that the movement, while it put them down, at the same time delivered a comforting message. It said to them: You are victims, and all your troubles and anxieties are the fault of somebody else. Women have indeed reached a new, if you will a revolutionary, condition. In the last fifty years, the combination of birth control, medical

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science, and modern technology have made it possible for them both to pursue careers and to have families. Now they are faced with an altogether new choice: Do I wish to have children or do I not wish to have children? This is both a new freedom and a tremendous new anxiety. The same is true with respect to the pursuit of careers. As any man could have told them—perhaps even tried now and then to tell them—the pursuit of careers can be quite anxiety-ridden. In any case, women discovered, though some denied it, that they had taken on a whole new set of anxieties and fears.

In this situation, that is, facing genuine and unprecedented problems, women were confronted with a movement that sang to them a siren song: The reason that you are having difficulties, went this song, is that *they* have been conspiring against you.

A true feminist movement under these circumstances would have said to women, in effect: Yes, indeed, life does have new difficulties; yes, indeed, it is full of new burdens and anxieties; yes, indeed, it is very hard. On the other hand, your new freedom can be very gratifying. You will need a lot of courage to secure its gratifications, but you *can* do so. Instead, they were told that their new freedom was the higher injustice. Any movement which offers an explanation for people's difficulties that has nothing whatever to do with them, and that requires no assumption of responsibility on their part, is bound to be very soothing. Witness the perversion of black pride and the undermining of black courage that has also resulted from just such a movement and just such a message.

If the movement had been addressing itself to the *real* difficulties of women, we should have seen an analysis of the condition of women today as one actually recognizes that condition to be. Such a movement would not have produced a literature which said that the educated American woman is a useless, helpless, brainwashed victim: for she is no such thing. If this movement had addressed itself to the problems of how much new will and courage it takes for her to deal with her new life as a person facing an altogether new kind of freedom, it would perhaps not have enjoyed such a wide response. But it would have been speaking truthfully, and it might in the long run have produced new vital juices instead of poison.

Our historian of the future, looking back, may describe, but will never be able to explain, any of this. The explanation does not lie in the domain of events and causes, economic conditions

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and social circumstances accessible to the historian's analysis. Nor can I pretend to offer it myself, except in the most vague and sketchy way. In the end, only a religious philosopher will be able to make our grandchildren, and their grandchildren, see how it was that women in our time came to be seized with such a loathing for what they ineluctably are. Perhaps he will say that it had to do with a refusal to accept the world and nature as God had constituted them. Perhaps he will say people—in this case, specifically middle-class, educated, Western women—were once blessed with a vast new accession of physical, social, and moral freedom, and sought desperately (let us hope he will have to say without success) to escape from it.

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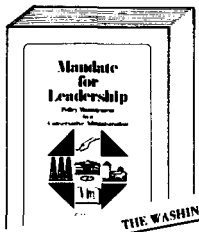

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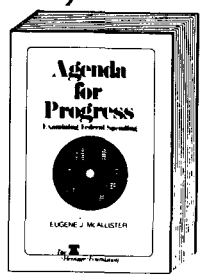

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How The Shah De-Stabilized Himself

GRACE E. GOODELL

He who is pure is only pure for himself
The Koran, *Sura 35*

As the dust settled over the cucumber field we watched a great truck with double trailer pull up at the edge of our small Iranian community of Rahmat Abad. The strangers curtly inquired the name of the village; then, satisfied, unloaded all their rods and pipes, motors, tents, and their extensive mechanical paraphernalia on the bit of land just beyond Mashadi Abbas' mud wall. The next morning they began to drill into the ground at that precise spot. We watched silently from afar: Here we were, a little community of 250 people miles from town, the very essence of Rahmat Abad being that we controlled its destiny and what happened in it—until suddenly, without the slightest acknowledgement of our very existence, this iron dragon moved upon it and took over! God is Merciful!

Night after night we talked about the new second-hand bike Parvis wanted to buy. No one so much as mentioned the intrusion. Bursting with my own speculation, I finally brought up the matter. Old Safar shrugged his shoulders and went out to pray. At the "little Parliament" held every night around the headman's teapot I demanded of Musa himself, "*You*'re in charge here; aren't you going to find out who they are?"

"Kanom Grace, it's a truck from Dowlat, the State." That much we had already guessed.

For weeks these strangers drilled into the ground, rupturing the rural stillness with their banging. The villagers slowly became acquainted with the men through exchanges of tea and cigarettes. When little boys dared ask what they were doing Dowlat's men replied, "drilling." As nothing had ever been "drilled" in our region before, the explanation remained obscure. One day Dowlat's crew plugged up the two little holes they had bored. The night before they departed we conversed warmly in Mashadi Abbas' hut: we

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had become accustomed to their incessant hammering in the day and their lantern flicker at night, out beyond the village edge.

After our third round of tea with the crew the village judge summoned up his courage. Solemnly declaring that the White Revolution had sworn him in, too, as a part of Dowlat, he asked what harm there would be in our at least knowing what ministry had sent them to Rahmat Abad to put two holes in our ground and then depart.

"Tehran." Tomorrow they were returning across the mountains and desert two days away to get a new assignment of another precise spot in some other pitiable village where they would again go, drill twice, plug up the holes they made there, and leave. That was their work.

"You mean in Tehran they know about our little Rahmat Abad and the spot behind Mashadi Abbas' house?" gaped seven-year old Hossein.

"Let the man drink his tea, son," Hamda admonished, after allowing the question a hopeful pause. "Tehran sent them and they themselves don't know why. God is Great! God is Merciful!"

Fifteen months later, when I left Rahmat Abad, we still knew nothing about those two little holes and the men who had drilled them and left. The bald spot they had tampered with, the villagers fenced off by taboo. Musa once inquired at the Ministry of Agriculture in town, where he was told that, yes, two holes had been drilled alongside King Darius the Great Rural Cooperative. "But why are you asking?" reprimanded Dowlat's agent in charge of us. He only referred to our place by its Imperial name.

The Shah's Agricultural Revolution

During the peak of Mohammad Reza Shah's reign, between 1972 and 1975, I conducted anthropological field research in the heart of Iran's famous Dez Irrigation Project in northern Khuzestan. Here the Shah and his top planners[1] had set out to transform over 100,000 hectares of prime farmland which they had given to jubilant peasants in the land reform only five years earlier. The State took back the ancient lands, razed the villages, modernized all production facilities, and then turned the entire landscape (in-

1. Including David Lilienthal, architect of the Tennessee Valley Authority, which served as the original blueprint. The project was a showcase of the World Bank planners and in critical respects a prototype of that agency's rural development schemes.

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cluding its people) over to foreigners and Tehran technocrats for something called consolidated agricultural management. One by one the new yeomanry, now reduced to the rural proletariat, were offered dollar-a-day jobs on the agribusiness and cinderblock "model" towns. By the time I arrived many of these enormous farms had been under production for some years, constituting a pilot program for the whole country. Indeed, by the end of 1974 several hundred such enterprises had been established throughout Iran's major agricultural areas, all based on these Dez models.

Although far more attention has been given to the Shah's reforms in industry, schooling, and basic infrastructure, the Dez development model with its new towns—called "shahraks"—would have affected a vastly broader segment of Iranian society than any other aspect of the King's ambitious plans, and would have left a far more profound mark on Iranian culture. After all, nearly three-fourths of the population lived in the countryside on which the state had begun to ply its surgical knife, operating there at a much deeper level than it did in finance or even education.

As part of my research, I first lived for eighteen months in a traditional village outside the Dez project but in the same region; then I moved right into the showcase itself for a similar period, took a room in one of the model shahraks, and occasionally worked as a laborer at the adjacent agribusiness. In the traditional community, Rahmat Abad, the State had begun to unroll a part of the Shah's development package designed to tide over the less productive agricultural areas until the real benefits of technocracy would eventually reach them. (I later learned that our village was destined to become a shahrak site in eight or ten years; it would then draw its water from the two little plugged-up holes Dowlat had already provided with characteristic efficiency and foresight.) Thus, while the rural world watched the State engulf its more prosperous domains, those left behind, like Rahmat Abad, were consoled for their patience with the minimal perquisites of modernization.

The results of this research are highly relevant to Americans, not only because of our long support of Mohammad Reza Pahlavi's rule and our efforts today to understand the society he left behind—but perhaps more importantly because the development policies the United States upholds are, by and large, founded on the very same propositions as the Shah's. We still lack an understanding of sound economic development; those policies we have formulated are rarely based on skilled, sustained observation

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at the grass roots level, and even more rarely tested by conservative political principles.[2]

This essay examines the Shah's development program for rural Iran in the light of basic conservative principles. The anthropologist's methodology is particularly suited to the questions conservatives raise, because our strength lies in the analysis of relationships within the social matrix rather than simply in the measurement of benefits to individuals. It is concerned mainly with locally rooted associations and with the strength of those associations against the State, and it considers many vital questions that cannot be examined through aggregate data like surveys, distributions figures, or changes in the GNP.[3]

Breaking Up Families

Let us therefore examine the anthropological evidence of the Shah's transformation of Iranian society in the light of basic conservative principles, admirably summarized in eight constituent tenets by Robert Nisbet in *Policy Review* three years ago.[4] Most conservatives begin by affirming *the need for family, "nuclear and extended, and its autonomy from political regulation."* In Iranian society, the family is the fundamental building block, the guarantor of each person's trustworthiness, his avenue to advancement, his haven in distress—indeed, his deepest social identity. For example, in traditional rural Khuzestan, where this study was conducted, villagers lived in large family compounds with as many as five or six distinct nuclear families sharing the same facilities and many of the same activities. Even the poorest families—a landless old man in his eighties with his haggard wife, who have no relatives at all, or a rebel son who has left his father's and brothers'

2. Indeed, more than any other major political group in the West, conservatives stand out for their aloofness from the problems of poverty, colonialism, and economic development although Burke's political philosophy was forged on the anvil of the Third World challenges of his day: revolution in France, class exploitation in Ireland, colonial oppression in India, and the North Americans' demand for the right to govern themselves.

3. I do not intend a critique of American foreign policy toward Pahlavi Iran. In fact, the factors I discuss here were—and still are—almost completely peripheral to the deliberations of our foreign policy in any country on the globe.

4. Robert Nisbet, "The Dilemma of Conservatives in a Populist Society," *Policy Review* #4 (Spring 1978), pp. 91–104. Quotations marked with italics throughout are from this essay.

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partnership in anger—even these social fragments share a compound with another family. Such intensity of family association is the mainspring of Persian morality.

But the cinderblock homes of the new shahraks elaborated by the Shah's development plan precluded this traditional family pattern. As agribusiness laborers, the men of an extended family suddenly found themselves without any common economic base or corporate enterprise. Instead, they had to compete aggressively with one another even for a job. Nor was the extended family strengthened in other ways to assure its survival through this transition: The State gave each *nuclear* family a tiny two-room house back-to-back with (rather than facing) its neighbors. Since residents were forbidden to add additional structures made of cheap materials like mud or wood, (the only materials most laborers could afford), married sons had to establish their homes somewhere else, apart from their fathers and brothers; but as the Planners left the shahraks no land for expansion, this necessarily meant that upon forming their own families sons had to leave the settlement of their kinsmen entirely. Usually they migrated to a distant city.

The Imperial police, in charge of assigning the uprooted peasants their new homes in the shahraks, explained to me how the State deliberately broke up families that might cause trouble, especially large extended families. Notably police targeted those very families reluctant to exchange their traditional homes for the new cinderblock ones in the shahrak. When widows requested house assignments next to children who were being moved to different model towns, their requests were always denied. "We can't start letting people tell us where they want to live," Commandant Kazemzadeh asserted. Over a third of the peasant families found themselves separated by greater distances in the shahraks than in their previous homes. The Tehran planners were proud of this "Iranianization" of old kinship ties. The texture of traditional family life stood in the way of rational decision-making and labor allocation, they told me, so family values had to be wiped out measure by measure.

As for Rahmat Abad and the villages outside the Plan's main thrust, the State attempted very little against the *extended* family *per se*; this was perhaps because, given the State's low degree of concentration in these communities, and the nature of subsistence farming, the family was relatively inaccessible to it. But the State's enmity toward the tribes and tribal allegiances is classic; by the

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end of the Second World War the Shah had already succeeded in breaking down this outermost ring of protective kinship.

From the peasants' point of view the regime's principal strategy against the next inner layer, the extended family, was military draft. They could see no other purpose for the draft, since the country had not been at war at any time in their memories, and since illiterate farm boys could contribute nothing to the Shah's sophisticated weaponry anyway (which their reports of idleness, once in the army, fully substantiated). The local general confirmed the peasants' suspicions, complaining to me of having to run a "nursery school" apart from the army itself, "to yank these kids out of their tightly bound clans, make a crack in the shell for outside penetration."[5]

Intermediate Social Associations

As Solzhenitsyn describes so painfully, the authoritarian State "knows" what stands in its way, and knows that the individual's last refuge is the family. Indeed, taken as a whole, Robert Nisbet's eight tenets of conservatism combine all of the major constitutive elements of the individual's battle gear in the face of unrestrained power.

But family alone cannot shelter men against the State's intent, which is why Professor Nisbet's second essential, *the "intermediate social bodies*—churches, guilds, corporations, social classes, and so forth" were even more systematically liquidated by the shahrak development plan.

On the national level the King and his father had long ago determined to homogenize Iranian society, purging it—if they could—of its tribal diversity, regional interest groups, political parties, occupational associations; and reducing as far as possible any sense of religious pluralism. The shahrak administration consistently prevented fellow villagers from reconstructing their old, natural associations: neighbors who had been together for generations were severed, and villages were jumbled so that strangers were housed among strangers. The vision, "We are all Iranian first," required atomization.

Yet the villagers' habits and affections persisted. For instance, once in the new town, the peasants sought to preserve some lin-

5. The peasants also saw the Shah's birth control drive as a means to weaken the extended family.

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gering thread of community cohesion by worshipping together in village groupings. This, too, the State forbade. When the men formerly of Najafabad started to build a small house of prayer for themselves, soon after arriving in the shahrak, the authority dictated that "One mosque is plenty for everyone. There is no more Najafabad. You must learn to be *one*, now."

Labor unions were, of course, forbidden at the agribusiness. Political parties that thrived briefly were abolished because, according to the State's *farmandar* in Dezful, "the Iranian people unite in one mind and have no need of diverse expressions." Children were sent home from our shahrak school when they wore any trace of tribal costume, and they were ridiculed for speaking in their local dialects. Meeting one another at the obligatory parent-teacher meetings, many new townsmen—with the considerable organizational skills they had exercised in traditional village life—set about to solve some of the pupils' problems on their own: clearing the playground, monitoring teachers' punctuality, and arranging supplementary coaching before the high school entrance exam. The State disbanded the PTA.

On the surface, the Shah's White Revolution waged a much more limited campaign against intermediate social groupings in the traditional villages like Rahmat Abad. The credit and extension services with which it replaced the landlords protected the State's own farm cooperatives from any spontaneous participation on the part of their members, while the gendarmerie's bared bayonets "defended" all folk pilgrimages and religious revival meetings in the countryside. Of course the traditional village needed few intermediate social groupings, because *the community itself* so effectively buffered individuals and families against outside power. This is precisely why the Shah's rural development plan so purposively looked to the eventual liquidation of these closely knit communities and, for the interim, sought to undermine their local autonomy.

Another important obstacle to the progress of the State Development Plan was *the autonomy and initiative of local associations*. Before the last world war, businessmen and tribal leaders of Khuzestan province had proposed a revenue-sharing program, in which they requested that a small portion of Khuzestan's vast oil wealth be made available for the region's civic and entrepreneurial development. Years later prominent government officials explained to me how profoundly this suggestion had threatened His Majesty, who considered that his father had laid down his life to

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obliterate the very local autonomy that these Khuzestan patricians now sought to restore!

According to the Minister of the Plan, it was precisely to undercut such local initiative and assure regional *dependence* that the King soon thereafter asked David Lilienthal to launch the showcase Dez scheme, which would "integrate" all the province's resources firmly under the Plan's close "coordination." From this, as we have seen, the entire country's rural Plan sprang forth, detailing not only the *physical* liquidation of hundreds of thousands of self-contained villages, but—far more decisively—the destruction of all local political and economic *spirit* as well.

In its incipient vigor, at least, this gigantic overhaul was meticulously thorough: the very names of old orchards and familiar knolls, little folk shrines, and centuries-old villages were effaced; in their place the Plan strewed across the landscape a catalog of Persia's strong men, after whom it named its new model towns.

One afternoon my new townsmen neighbors built a hump across our street to slow down reckless company trucks which endangered children and choked the vegetable plots with dust. I was proud to see this embryonic communal effort at last, in the tired shahrak. The next morning, without a word, the State bulldozer came some thirty miles to level the hump: "May their fathers burn! They think they run the place!" Engineer Mehrabani cursed the shahrak inhabitants when I inquired.

Later in the year the State-appointed "council" of our model town actually offered a suggestion of how the shahrak residents could rotate irrigation turns during the dry months so that everyone might get a share of scarce water for his family's summer garden. Mehrabani cursed again: "They're all engineers, are they?" Refusing their proposal, he set up his own, based on technical ignorance of the water course flows—which brought unfair distribution, continual fighting, and finally drought to the lower third of the shahrak. Later, after also being denied the chance to regulate their own religious celebration, the shahrak council ceased meeting. The bureaucrats sighed in relief. "You should have seen how nice we had this place before the people moved in," one told me with resentful nostalgia.

The Shah's development Plan did not limit its political prescriptions to shahraks, though. As we have seen, by the late 1960s it had set out to break down the walls around even those villages that the Plan might not reach for some years to come. Thus in Rahmat Abad the White Revolution abolished the traditional of-

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fice of village headman, replacing it with a broad spectrum of Tehran appointments and elected positions by which the State hoped to trivialize local power and divide and rule the ancient community within. But the State notwithstanding, our "little Parliament" convened nightly over Musa's teapot. The White Revolution's peasant officers had a hard time even remembering their titles and functions when their provincial commander periodically appeared to review his guard.

For over twenty years Rahmat Abad and several neighboring villages had maintained a school in our headman's home, paying the teacher by communal contributions and providing him local food and housing. If he spent too many days trapping partridges or courting a sweetheart they found a more disciplined replacement; his integration into village life enabled their close supervision. The State outlawed this enterprise when it implanted its own white brick classrooms at the edge of the community, with its short-skirted teachers over whose irregular attendance—driving out from town every day in a taxi—the villagers had no control. (Finally cow-dung patties were set to dry all around the new school, and the teachers found their noonday meals too salty to eat. As with the men from Tehran who drilled the holes, and the bulldozer that levelled the hump, the people and State stood off against each other wordlessly.)

Social Order and Property

A fourth conservative principle, *the preservation of "the vital role of social rank,"* provided the foundation for traditional village life. However small and poor, Rahmat Abad combined rich social texture with community. The three sons of the former landlord's overseer owned sheep, cows, water buffalo, a house lot in town, a motorcycle, and the major share in a Romanian tractor. Everyone in the village enjoyed access to their prestigious urban connections, to their donations, and to their economic services whose fixed rate was set through corporate bargaining. But just as these men sustained many of the poor, so too the villagers honored their prosperity and prestige and, indeed, paid them a salary for their civic leadership.

In contrast, a primary aim of the new model towns was social levelling. Landless villagers were strongly discouraged from moving to the shahraks in the first place and given last priority for jobs at the agribusiness. As we have seen, a man just at the bottom of the economic ladder, leaving his father's house to take a wife, fre-

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quently had to go elsewhere as well. Joining the urban lower class, these migrants became still poorer. At the upper end of the social scale, when the villages were expropriated for land levelling, the State virtually prohibited the incipient "kulaks" from taking any productive resources with them to the new model towns: their herds were forbidden, as was raising small animals; "zoning" laws ruled out vehicle repair and welding shops, street-front retail stores, minibuses and larger trucks; the bakery licenses were given to men from Dezful and the agribusinesses set up all their own mechanic services and cafeterias and even imported their own domestic labor. And if a lucky peasant worked his way up to be foreman at one of the companies, he would begin to invest in urban land to move out. The shahrak rules limited his scope of property acquisition, savings, investment, and domestic expansion too seriously, in the State's obsession to maintain the appearance of egalitarianism in the new model towns.

The State's administrative officer in charge of the shahrak plan outlined it quite explicitly to me: in time the more prosperous laborers would leave the model towns; they would exchange places with the cities' lumpenproletariat. There were suburbs for the wealthy. Everything would be in order.

"All these animals need is a few months before each marks his own stamp on his place," lamented an assistant minister on a routine visit; "flowers here, a shed there, they even seem to have different ideas about where the entrance paths to their houses should go! I don't understand why His Majesty bothers to help them out, when the whole place will look like an unruly village again in no time at all."

What he especially resented was the new townsmen's assertion of individuality, what Russell Kirk has called the "proliferating variety and mystery of traditional life, as distinguished from the narrowing uniformity and equalitarianism and utilitarian aims of most radical systems."[6] In two years time, in fact, the new townsmen's transformation of those sterile rows of cinderblock houses utterly defeated the State's careful blueprint for discipline. So a new edict came forth: rather than forbidding walls around the house lots (as it had originally done, to expose all details to Dowlat's scrutiny) the State now commanded them. "At last we will restore the Original Design!" the master planner sighed, al-

6. Russell Kirk, *The Conservative Mind* (Chicago: Henry Regnery, 1953), p. 8.

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lowing the townsmen greater privacy only as a "last resort to uniformity."

Landed property, or "property in any form that is private and tangible" constitutes another of Professor Nisbet's tenets of conservatism. One of the Shah's most forceful steps of his long reign was to reaffirm the Persian State's claim to all real property in the kingdom, a claim the throne had enforced periodically for millenia. To his credit in the eyes of many, the Iranian land reform ranked among the speediest and most systematic in modern times—though the peasants themselves soberly reflected upon the benefits they had received: "If the King can wrest all this way from the rich to give to us, how much more easily he can take it back from us someday."

Officially, the State owned the entire shahrak, buildings and all (just as it assumed it owned Rahmat Abad's in the drilling episode). "You live on eternal lease from His Imperial Majesty," the shahrak authority clarified to Haji Jahangir when this formerly prosperous peasant opened a store on his lot in the shahrak (the shops in town being an hour's truck ride away). The Mohendis[7] ordered the store closed on the spot or it would be destroyed in three days time. "Only Dowlat can have store here." By this he meant that the tiny candy-and-matches stores were permissible inside people's homes, but any public, commercial enterprise open onto the street would defy the State's absolutism, which the new model town so aesthetically enshrined.

Property *per se* was not the Iranian Planners' enemy: the State sent no one to take the peasants' hoarded gold jewelry from them when it razed their communities and drove them from their land. Rather, as Haji Jahangir learned, it was the public display of property gained by enrichment and used for further enrichment—it was his growth and expansion—that contradicted the rural plan. In the shahrak—never in Rahmat Abad—I frequently heard the Persian proverb, "The more the tree bears fruit, the more it is bent to the ground."

In the cities, too, the State preyed upon the wealthy, but much more selectively; the most secure shelter was provided by the Palace itself. Still, the same antagonism between public power and public wealth prevailed in the great urban centers, behind the scenes—as many investors sensed.

One day the lowest peasant in a neighboring village and the

7. A title of respect accorded to engineers in Iran.

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manager of one of the largest new agribusinesses both said the same thing to me: "The minute I show a profit on this land [the State] will take it away." Both were correct: when the peasants raised an unusually successful crop of Israeli cucumbers on their rocky soil, their land was expropriated for a military farm; the foreign enterprise was "bought out" by Princess Ashraf as soon as it finished installing the infrastructure for large scale production, found the right crop mixture, and trained management and labor for operation.

The Authority of Tradition

The preference for tradition over prescriptive law or administrative decree constitutes another element of conservatism. To the Pahlavi regime tradition was Iran's first enemy; administrative decree, its savior. In hindsight it is ironic that the dynasty sensed the dangers of tradition to be stronger in the countryside than in the cities.

When the new townsmen sought relief for their hunger during the country's 1974 wheat crisis, they walked step by step from tradition that had governed *village* relations, to administrative decree that determined peripheral matters in rural modernization. . . and then on to fiat, which ultimately settled all significant questions. (There was no prescriptive law in Pahlavi Iran, at least none that affected the vast rural sector.)

In this crisis the shahrak's appointed group of fifteen laborers, along with the several shahrak bakers, set out to request an increased wheat allotment for the new model town (which, having been given by His Majesty to the Ministry of Water and Power, remained in limbo as far as many government bureaus were concerned). In the worker's view, the agribusinesses and State farms had taken the landlord's place; since, traditionally, rural hunger was the landlords' problem, they went to the companies first. These denied responsibility but directed them to the urban grain merchants, who were next in line anyway since each peasant family had always linked itself to a merchant family in town.

But with the increasing centralization of the State, the merchants had lost control over the product they sold—as had the bakers' cooperative, which the workers approached through their bakers, and the local wholesalers to whom they had access through their grain merchant friends. Traditional channels failing, the wholesalers shifted the group onto the State's *administrative* track by pointing them to the regional government warehouse,

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whose Depot Officer was dumbfounded by such an irregular inquiry.

At that point the laborers retreated back to the familiar territory of tradition, this time at a higher level: they sent a petitioner to the governor, who in the old society embodied the pinnacle of paternalistic power (indeed, was often the tribal chief). But tradition had disappeared there, too: Our man never saw the governor at all. Luckily, with the air of old habits lingering in the rambling reception chambers, the governor's tea boy advised our deputy how to locate the Imperial Grains Board, which—back now in the *administrative* hierarchy again—sent him to the Ministry of the Plan in Tehran!

Having discovered that their problem fell under the control of neither the traditional network nor administrative decree, the shahrak workers switched to fiat's chain of command. To my surprise they did not take their case to the provincial Ministry of Labor or Health or Rural Welfare (or even Water and Power) but rather, straight to the regional headquarters of the secret police. They were right. The dread SAVAK, housed in an inconspicuous private home on a side street, determined the price, allotment, and distribution of wheat even for our remote shahrak.

As for tradition in those villages remaining outside the model towns, Rahmat Abad's headman was abolished, the villagers' school closed, and their centuries-old irrigation system with its Muslim code of water rights demolished. Women were ordered to follow strict birth control schedules issued at the village crossroads, and each who refused to comply was publicy rebuked. When the State's malaria spray team arrived, the peasant had minutes to move everything out of the house; what remained inside by the time the spray had been mixed was summarily enveloped in its white poison: baby's nipple, yogurt pan, clothes on the rack, an image of the Prophet. Swish, swish, swish. Fiat would cleanse the land.

Shortly after Hamda's installation as village judge, a Justice Corpsman was assigned to assist him in Rahmat Abad. At our "little Parliament" this young man, Yazdi, would instruct us nightly in the new legal code, a litany of fifty-two pages, each offense with its corresponding three degrees of punishment. For instance, in the section on rats these Tehrani lawmakers fined the Rahmat Abad mother whose children played with a dead rat, a farmer who used year-old rat bait, and an extended family on whose threshing floor a single mouse hole could be found.

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However ludicrous the State's obsessively minute legalisms seemed for the safety of villages that had survived on their own for millennia, Imperial decree was no trivial matter in those extensive rural areas that the Pahlavis determined to uplift, mutilating beyond recognition any trace of traditional claim or customary due process. In our case the Khuzestan peasantry, considered one of the most "backward" in the world, became owners overnight of land coveted by the most advanced California agriculturalists; they became beneficiaries, too, of the World Bank's showcase irrigation scheme, and captains of a phalanx of Romanian tractors—only to have their villages laid waste on the morrow and they themselves disinherited, lining up daily for the right to work on their very own land, now in the hands of foreign capitalists who knew nothing of their culture or language (or even of local agriculture). But again in a flash they were seized anew, this time by jealous royal sycophants who, having no care for the land at all, restored many of the farms and workers back to the old landlord families for exploitation. All this the Khuzestan villagers passed through within but fifteen short years of His Majesty's willfulness.

In short, as Russell Kirk has pointed out, "innovation is a devouring conflagration more often than it is a torch of progress."[8]

But the cornerstone of Professor Nisbet's conservatism is his assertion that *decentralization is "indispensable" and that political power must be "diffused."* The Shah's entire national development plan rested on just the opposite principle: the supremacy of himself, the center. On the level of political command, it was clearly easier to absorb Iran's urban sector first into the center since (as we see now) its political fiber was already very weak. But perhaps the only way to reduce the self-governing villages of the countryside in one ruler's lifetime would be by the shahrak system, by pulverizing them and then trying to create a new rural people in the Pahlavi model towns.

The traditional Persian villages like Rahmat Abad had inherited from the Qajar period—and before—a highly decentralized relationship between the community and the town on the one hand, and between the town and the State on the other. Hundreds of thousands of villages like Rahmat Abad managed their own foreign policies in dealing with outsiders, their own immigration laws, zoning restrictions, health regulations (concerning

8. *Ibid.*, p.8.

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water, herd, and orchard management, sick care and emergency measures, as well as the control of witches, the evil eye, etc.). Such a village farmed over 200 hectares communally, determining entirely on its own which crop to plant in the main fields, redistributing all plots for the members' seasonal usufruct, hiring and supervising communal labor, constructing and repairing an elaborate irrigation system, and regulating transportation to market as well as outside merchants' access to the village produce.

Notwithstanding the Justice Corpsman and other bureaucrats, Rahmat Abad had sustained its own legal system for thousands of years, recruited and constrained its leadership (indicting the previous headman for complicity with thieves), assured the landless of employment, and sustained the poor and homeless. On dozens of occasions I watched the entire village respond to a night watch's alarm against thieves, rush to the call for a fire brigade, or join in corporate mourning for someone's distant kinsman most villagers had never known.

When only mild pressure was applied to a village like Rahmat Abad the countryside diffused Tehran's power—in economic matters it very cautiously accepted land reform and the State's farm credit (maintaining friendly ties with the landlord); in education, medicine, agriculture, and in rural infrastructure it tolerated or pretended to grant mild intrusion; in morality, law, local politics, administration and police protection, aesthetics and religion, and in its profound social and cultural life, Rahmat Abad rejected the Shah's centrifugal pull. How could one centralize the political landscape of Rahmat Abad?

In contrast, the shahrak could do nothing, not even bring to life a PTA, not even defend Haji Jahangir's little store, not even determine how to pray, not even make a hump in the dusty road. There is nothing more certain about his reign than that the Shah in his vision determined to have become King of Rahmat Abad as well.

The Orchard

In the midst of the shahrak in which I lived the State had preserved the former landlord's beautiful Persian orchard, imposing the new town on the place of the old village that had spread around it, but leaving this lovely garden intact. The shahrak itself was almost devoid of trees, since it had been built on the demolished village's rubble. Old women in the shahrak sought entrance

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to the orchard for firewood, families for picnics, and in the hot afternoons students longed to study there where it was quiet.

The orchard symbolized the traditional life the peasants had lost, the familiar old village and secure relationships which were gone. Throughout centuries of Persian poetry, painting, carpet weaving, and song, orchards recur as a unifying theme song among the rich and poor alike—in this desert land of mystic saints—offering release from life's drudgery, a glimpse of Paradise.

Paradise indeed our orchard was, and forbidden to all shahrak workers and their families. On weekends and national holidays government officials from as far away as the provincial capital, and often even from Tehran, would drive through our hot, dusty new town to the orchard in our midst. The great orchard gate closed behind them. When I asked why the shahrak workers were not given permission to enter, or why the shahrak council could not administer this garden for themselves (hundreds of the men having been orchard keepers for the landlords in previous years), the matter of decentralization was again laid bare. The Ministry of Water and Power in Tehran owned and ran our orchard; top-level regional bureaucrats could enjoy it, but not even the Ministry's own employees in Dezful were granted that privilege. As in the drilling of Rahmat Abad's land, all power whatsoever emanated from the throne.

I have left until the last, "*a rooted awareness of the sacred.*"[9] This echoes Russell Kirk's first canon of conservative thought, "belief that a divine intent rules society as well as conscience, forging an eternal chain of right and duty which links great and obscure, living and dead. . . ."[10] By now it may be easier for us to understand the secular foundation of the Pahlavi regime, and its deep violation of the Islamic sacred trust. The Shah described himself as a religious man—indeed, he often said he spoke with God and was guided directly by the Almighty. But the unrelenting materialism, the haste, the force, the arrogance and obsessive egotism of his rule as it was carried out at the local level desecrated the conservatives' "eternal chain of right and duty which links the great and the obscure." Here was a living example of a regime which chose "rea-

9. Note that Professor Nisbet does not refer specifically to *the clergy*. Institutionalized religion, often itself a political actor, can also embody and stand for a society's sacred principles, but the two functions can be quite distinct.

10. Kirk, *op. cit.*, p. 7.

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son, impulse and materialistic determinism. . . as guides to social welfare."[11]

The Muslims I lived with were deeply religious; to dwell within the Shah's thrust to "modernize," gave them an even more profound awareness of the fragile bond, the eternal chain. Conservatives more than anyone else should easily comprehend why Iranian society today grasps for the most reactionary *religious* symbols in its revulsion against this half-century of centralized change, in its yearning to cleanse itself and start anew. The difference between revolutions in the West and the one Iran attempts now, lies precisely at this level: Despite itself, because of its moorings, not even the *ancien regime* had profaned against the deepest mainsprings of the sacred as did the Pahlavi Development Plan.

Nor can the Persians' efforts to rebuild now succeed for long. A population systematically atomized for decades cannot restore by religious or revolutionary fiat the basic building blocks of free associations, of law, of trust and spontaneous initiative, which have been lost not only in the shahraks of Iran, but everywhere the Plan penetrated. Fortunately men of intelligence and integrity remain, still safely ensconced within the ranks of government; but just as the Shah and his ministers could not create an entire society according to their will, neither can the individuals into whose hands these fragments have fallen. The desperate problems of an eroded social foundation are far more complex than mere leadership, production, or even the establishment of peace and order. The very nature of the "eternal chain" that has been rent asunder and scattered is that it was not forged in a day.

Those few conservative intellectuals who have dedicated themselves to the challenge of economic development have mainly been economists, placing high on their list of priorities freedom from government intervention. With Professor Nisbet's analyses and Russell Kirk's insights we can now link economic structures and the optimal environment for *their* interplay, with the dynamics of social and political structures. Are these various structures congruous? Shouldn't a conservative "development" policy begin with the primacy of political and social relations, and then trace how these inhibit or favor economic prosperity?

"Economic" development is, after all, a process, not a material goal. It can best be accomplished by local people who perceive

11. *Ibid.*, p. 9.

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their needs, understand the channels accessible to them, and who, in any event, must sustain the momentum after outsiders have left. The gains of learning through local trial and error far outweigh the costs. The safest form of outside assistance is that which relies the most upon local participation, and builds local checks and balances when they are weak.

> One of the first and most leading principles on which the commonwealth and its laws are consecrated, is lest the temporary possessors and life-renters in it, unmindful of what they have received from their ancestors, or of what is due to their posterity, should act as if they were the entire masters; that they should not think it among their rights to cut off the entail, or commit waste on the inheritance, by destroying at their pleasure the whole original fabric of their society; hazarding to leave to those who come after them a ruin instead of a habitation—and teaching these successors as little to respect their contrivances, as they had themselves respected the institutions of their forefathers. By this unprincipled facility of changing the state as often, and as much, and in as many ways, as there are floating fancies or fashions, the whole chain and continuity of the commonwealth would be broken. No one generation could link with another. Men would become little better than the flies of a summer.[12]

The guiding principle of Mohammad Reza Shah's development program for Iran was autocratic rule. The guiding principle of conservatism is the containment of centralized power.

12. Edmund Burke, as cited by Russell Kirk, *op. cit.*, p. 39.

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The Mythology of Tax Cuts

CARL F. CHRIST AND ALAN A. WALTERS

Will the Reagan administration's proposed tax rate cuts improve incentives and increase output? Many people say yes. Well then, will outputs rise so much that tax *revenue* will rise, thus cutting the federal deficit? Even if government expenditures are not cut? Some of the tax cut supporters have said yes. This article asks, "Do their arguments fit the facts?"

It has long been widely acknowledged that taxes cause considerable distortions in economic and social behavior. Taxes induce us to do many things which we would not do in an untaxed environment—such as get a divorce, buy forests, drill holes in the ground, and so forth. One of the most notable distortions is the one caused by income tax on the amount of time and effort that people devote to acquiring income. In most modern economies the tax rate increases as the level of income increases—producing a so-called "progressive" tax system. Increasingly large fractions of income acquired from additional effort and hours of labor will thus be syphoned off to Washington.

As far as effort and incentive are concerned, it is not the average rate of tax—nor the amount of total GNP which is annexed by government—but the *marginal* rate that matters. To illustrate this, consider a tax system which levies taxes at a 5 percent flat rate up to $3,000 a year and a tax rate of 100 percent thereafter. (A system not dissimilar was in operation in Sri Lanka some years ago, and appears in many sophisticated welfare states today.) Certainly the *average* rate of tax in this society would be 5 percent. But such a low rate of tax would not imply that taxation does not constrain effort and distort decisions. Clearly it does both. Not a penny might be collected at the 100 percent *marginal* rate, but that high marginal rate would destroy enterprise and promote sloth. Whether the average rate of taxation—or the fraction of income paid over tax—is high or low, therefore, is quite irrelevant to the structure of incentives; only *marginal* tax rates matter.

But what can be said about the effects of increased marginal rates of tax on effort, hours, and income? At first glance the answer seems obvious: Surely increased marginal tax rates must reduce labor and make leisure and other untaxed activity more attrac-

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tive, so that there is bound to be a reduction in income. A little reflection, however, will show that this need not be true. If a man wants income badly enough, then the higher tax rates (so long as they do not reach 100 percent) mean that he may work harder and longer in order to obtain his required level of income. And although leisure has become cheaper, he now has less of it.[1] His desire for additional income is so strong that the tax rate, by making income more onerous to acquire, has simply resulted in increasing his effort. But except perhaps in the very short run, this is likely to be an unusual reaction to increases in taxes. One would expect the man, after a while, to reduce his effort and increase his leisure. Of course, both the lotus-eater and the workaholic are caricatures—but they illustrate the main features in the delineation of incentives.

In practice, moreover, there are many warts on the face of tax administration which seem to be increasingly prominent. One is the ability to avoid tax by working in the "unobserved sector." This covers activities where tax is either evaded or avoided: mutual back-scratching, barter, do-it-yourself activity, and so on. Recent research suggests, first, that the unobserved sector may be of much greater magnitude than hitherto imagined and, second, that it is growing more rapidly than the observed sector of the economy. However, it would be quite wrong to take a relaxed view of high marginal tax rates on the theory that the agile will always be able to avoid them. Both avoidance and evasion are costly since the tax-dodger is induced to undertake tasks for which he is not suited but which escape the notice of the tax authorities. Perhaps more important, however, they erode the moral basis of the tax system. The United States appears to have stepped onto the slippery path leading to widespread cynicism where—as in Italy—the tax evader is praised, rather than excoriated, as a man who keeps money for the benefit of his family rather than letting it be appropriated for the corrupt purposes of political payoffs. It is noteworthy that Sophia Loren and Ingmar Bergman appear to their fellow citizens as the victims of a vicious system.

If the additional tax revenue from higher marginal rates were spent on goods worth exactly their cost, one might suppose at first that all would be well. Imagine, for example, that the government

1. In the jargon of economics, the income effect dominates the substitution effect.

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increases tax rates and uses the proceeds to finance medical services—which taxpayers had hitherto bought out of income. We ask the reader to stretch his sense of credulity and to imagine further that the state-supplied medical services are just the same in quantity, quality, price, and cost as those which he bought before, and in addition that the tax is exactly sufficient to pay for them. By working the same hours that he worked before the tax, therefore, he can enjoy exactly the same income and goods and leisure as before. Yet clearly, if he were in equilibrium at the previous low tax rate—that is to say, if he was just satisfied that the additional hours of overtime he worked brought in income which was just about worth the leisure foregone—he would no longer be in equilibrium at the new higher marginal tax rate. Leisure would now be cheaper and accordingly he would be induced to work less (or, conceivably, switch into the unobserved sector—but leave that aside). So, even if the income-reduction efforts of taxes are just cancelled out by corresponding increases in government services, the effect of the tax is still to reduce work and increase leisure. A reduction of marginal taxes then will correspondingly increase incomes and reduce leisure.

Can we use this argument to conclude that, at least in the aggregate, the reduction of tax rates always adds to incentives and thus always increases incomes? Always, no, but often, yes. On the one hand, if the theories of ideal government and of public choice are correct, then in the aggregate what the government takes from us in taxes is *more than* compensated for by the values of public goods provided. We might accept the truth of this for national defense, the administration of justice, and for certain other public goods. On the other hand, few of us believe it of all public expenditures today. It is particularly doubtful in relation to redistributive taxation. Governments proclaim that they take from the rich and give to the poor (although it would be more correct to say that they take from the careless and give to the canny). Even if the government's proclamation came close to the truth, this would imply that an increase in taxation used entirely for redistributive purposes (that is to say, with not a penny being spent on bureaucrats as poverty fighters) would induce the poor to retire more readily from tiresome employment. The effect on those who are now more highly taxed, of course, would be to raise the profitability of tax avoidance, to reduce the attractions of work, and to increase the incentives to leisure. Thus tax rate cuts often *do* add to incentives and incomes.

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Taxes and Growth

What of the longer-run effects of tax cuts on the economy? One of the claims made for dramatic reductions in the marginal rates of tax is that they would induce higher *rates of growth* of real income. Indeed, the high rates of marginal taxes in the United Kingdom are often presented as an explanation for her relative stagnation compared with Japan, France, and Germany. The effects which follow a reduction in marginal tax rates (on work) are such that a man would be induced to put in more effort and more hours to adjust to the fact that he now gets a larger slice of his marginal output. But this is a *once-and-for-all adjustment.* The level of output would increase; but there would be no persistent effect producing a higher rate of growth in succeeding years. True, there would be a higher growth of output as people adjusted to the lower taxes. But people would not continue to increase their effort and hours of work in response to that one tax cut. Hence that increase would be only transitory, and the rate of growth would fall back to its old underlying value. Our conclusions, then, are that high marginal taxes do not explain low growth rates, and that, except for a transitory effort, lowering marginal tax rates will not induce an increase in the rate of growth of output.

There is, however, an exception to this result. Suppose that the reduction in marginal tax rates increases the savings rate of the private sector and this results in an increase in the private sector investment rate. Then indeed this may increase the rate of growth of the economy. The issue then becomes whether reductions in marginal tax rates will in fact increase the rate of savings and investment. It is unfortunately not clear whether such tax changes increase or *decrease* the investment rate. In any case, one would expect that the reaction would vary according to time. In the short run a change in tax will probably not produce much reaction; it will take time, as the contracts which the firms or persons have entered into come up for renegotiation, for any entity to make all the adjustments judged desirable. Similarly, there would be an enormous difference in response according to whether the changes in taxes were perceived to be permanent or merely transitory. We suspect that many people would regard a reduction in taxes as merely a temporary remission; this is, after all, the history of the Western world since World War II. Marginal tax rates have risen inexorably, if not steadily, in the past twenty-five years. Nor would it be easy to convince the populace that "this time it is really for keeps." Thus the transitory increase in incomes after tax may

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give rise to additional savings and so may generate more investment; but again it would be a once and for all affair and would not change the trend *rate of growth* of the American economy. It is unfortunate that economists know very little about the relationship among changes in income, changes in savings, and the rate of investment. For example, no one predicted that the rates of household (personal) savings in Britain would increase in the late 1970s to record highs, while in the United States they would fall to record lows; nor in economic theory is there any explanation of the discrepancy. We should admit our ignorance and take it into account when discussing the efforts of policy proposals.

Comparisons Between Countries

It is difficult to chronicle the quantitative evidence of the inhibiting effects of taxation, and particularly marginal income taxes, on effort and incentives and hours in any conclusive way. As with so much in economics, the effects of tax changes are often confounded with other events, and it is difficult to separate their consequences. In the next two sections we look at two kinds of evidence, bearing contradictory results.

One approach is to compare countries that have a high marginal tax rate with those that have a low one. From the evidence we have surveyed, it appears that Sweden, on the average, has one of the highest marginal tax rates; most taxpayers have marginal rates of tax on earned income of between 60 and 70 percent.[2] If one adds in social security, then the tax percentage rises to between 80 and 90 percent. (Some unknown part of these social security and insurance payments should properly be counted as contributory insurance pensions schemes.) Other countries in Europe that have high marginal tax rates on earned income (including social security) are Italy and the United Kingdom. In contrast, the marginal rates of taxation on earned income in Germany and France are considerably lower (largely because of the regressive nature of social contributions). Figure One illustrates the average tax rate at each income level for the four countries (i.e., excluding Sweden). Notice that the graphs are *rising* for Italy and the U.K. This means the *marginal* rates are *higher* than the average rates graphed for those countries. Notice now that the

2. Assar Lindbeck, "The Distribution of Factor Income vs. Disposable Income in a Welfare State: The Case of Sweden," *Fraser Institute Conference on International Taxation,* 1980.

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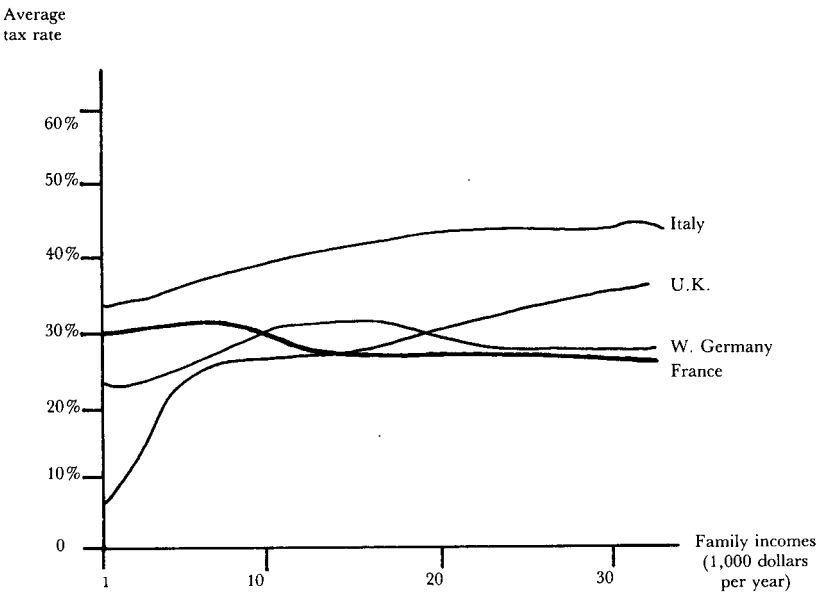
Figure One

Income taxes and social security contributions
Standard family



(Source: F. Reviglio, *L'imposta sul reddito delle persone fisiche,* in E. Gerelli and M. Vitale (editors), *E'fallita la riforma tributaria?*, Milano, 1979)

Note that marginal tax rates for Italy and the U.K. are even higher than the average rates graphed here.

graphs are *level* for West Germany and France. This means that the *marginal* rates are the same as the average rates graphed for those countries. Thus Italy and the U.K. have higher marginal rates than France and West Germany to an even greater degree than appears at first sight from the graph.

The conclusion is fairly clear. The United Kingdom and Italy have long been cast as the sick men of Europe—labor problems and low productivity have dogged both countries for some years. Whereas both France and Germany, and particularly the latter, have been long envied as countries of hard work and high productivity. Sweden may appear to be an exception to this association of high marginal taxes and low performance. However, we do not think so. There is considerable evidence about the deterioration of

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Swedish productivity in the 1960s and 1970s.[3] Thus for the countries where one is quite certain that the marginal tax rates are abnormally high, there is evidence of low or deteriorating productivity; and for countries where the marginal rates are low, productivity is high and often improving.[4]

Tax Changes Over Time

Evidence on the effects of a change in marginal tax rates over time is even more difficult to pin down. We are fairly clear, however, that the increase in marginal tax rates since the early 1960s has been considerably larger in Sweden and Britain, with their policies of greater equality and their more rapid inflation into higher tax brackets, than in France and Germany. Again, although the evidence is by no means strong, this is not inconsistent with the tax-disincentive hypothesis.

And what of the United States? Probably the evidence that is thought to be most persuasive is the boom in production that followed the Kennedy-Johnson tax cuts of 1964–65. There was a substantial reduction in the marginal personal income tax rates in 1964–65—the maximum marginal rate fell from a value of 91 to 92 percent in 1950–63 to 77 percent in 1964 and 70 percent in 1965–67.[5] It is also true that the growth rate of output rose from about 3 percent per annum in 1953–64 to almost 4.5 percent per annum in 1964–69. But this increase in the rate of growth was

3. *See* Assar Lindbeck, "Work Disincentives in the Welfare State," paper delivered at the Austrian Economic Association, Annual Meeting, October, 1980. There is other evidence on this point. The total cost increase per produced unit in Sweden, 1974–79, was more than ten percent higher than Sweden's fourteen main competitors, according to statistics released by the U.S. Department of Labor. One study ascribes this to: "strongly increased employment costs" (i.e., wages and social fees), and, in part, because the productivity per work-hour *has not increased since 1974.* Professor Sven Rydenfelt concludes (*"Det Sjuka Sjuttiotalet"*—The Sick Seventies): "During the 1960s the increases in productivity in our country—determined by net productivity per work-hour was, on the average, seven percent p.a. During the 1970s this increase-curve took a sudden downturn and during 1975 and 1976, it, for all practical purposes, ceased" (p. 76).

4. Japan also almost certainly fits into the category of low marginal tax rates and high productivity and effort. (*See* Joseph A. Pechman and Keimei Kaizuka, "Taxation," in *Asia's New Giant* (Washington, D.C.: Brookings Institution, 1976). However, the considerable social and organizational differences between Japan and European countries inhibit any comfortable interpretation of cross country differences.

5. Joseph Pechman, *Federal Tax Policy,* 3rd edition (Washington, D.C.: Brookings Institution, 1977) p. 298.

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more than accounted for by the growth of employment. If instead we measure productivity—net output per person employed—we find that there was a *fall* in its rate of growth from 2.4 percent in 1953–64 to 1.5 percent in 1964–69.[6] This implies that the reduction in marginal tax rates was associated with a *reduction in the productivity of employed* persons.

The U.S. evidence is thus scarcely encouraging for the tax cut hypothesis even in its weakest form (namely, that cuts in the marginal rates of taxation increase effort and productivity). But might not the hypothesis be rescued by arguing that the increase in employment was itself generated largely by the tax reductions? People who had hitherto been dissuaded from working because of the high marginal tax rates (these may include married women or dependent relatives of taxpayers) might now find it worthwhile to get a job. Such a proposition has not been central to any of the accounts we have seen of tax cut arguments—and with good reason. It is well known that transitory increases in employment (and temporary reductions in the rates of unemployment) are largely a consequence of previous accelerations in the rate of growth of the money supply.[7] Of course the money supply may be increased by a large variety of measures. Reducing tax revenue (which may or may not involve reductions in marginal tax rates) and expanding the money stock is only one such measure. So one clearly cannot claim unique efforts of reductions in marginal taxes. Other forms of monetary expansion would also have produced a transitory increase in employment and economic activity.

And, as we now know, in the U.S. the period from 1965 saw the start of the great inflation. It is easy to identify the production increases of the mid-1960s as the initial euphoric effect of the expanded growth of the money supply. Inflation followed inexorably in its wake.[8] From this version of the tax cut hypothesis, we must conclude that the evidence can be more convincingly explained by the above-mentioned (monetary) hypotheses which have been widely tested and not discredited. We must therefore regard the tax cut explanation of events as unproven.

Is there a tax cutting experiment from abroad that would help

6. Edward Denison, *Accounting for Slower Economic Growth* (Washington, D.C.: Brookings Institution, 1979) p. 27.

7. The average unemployment rates were 5.5 percent for 1957–65 and 3.7 percent for 1966–69.

8. The Consumer Price index increased at an annual rate of 1.4 percent in 1957–65, and at 5.1 percent from 1965–74.

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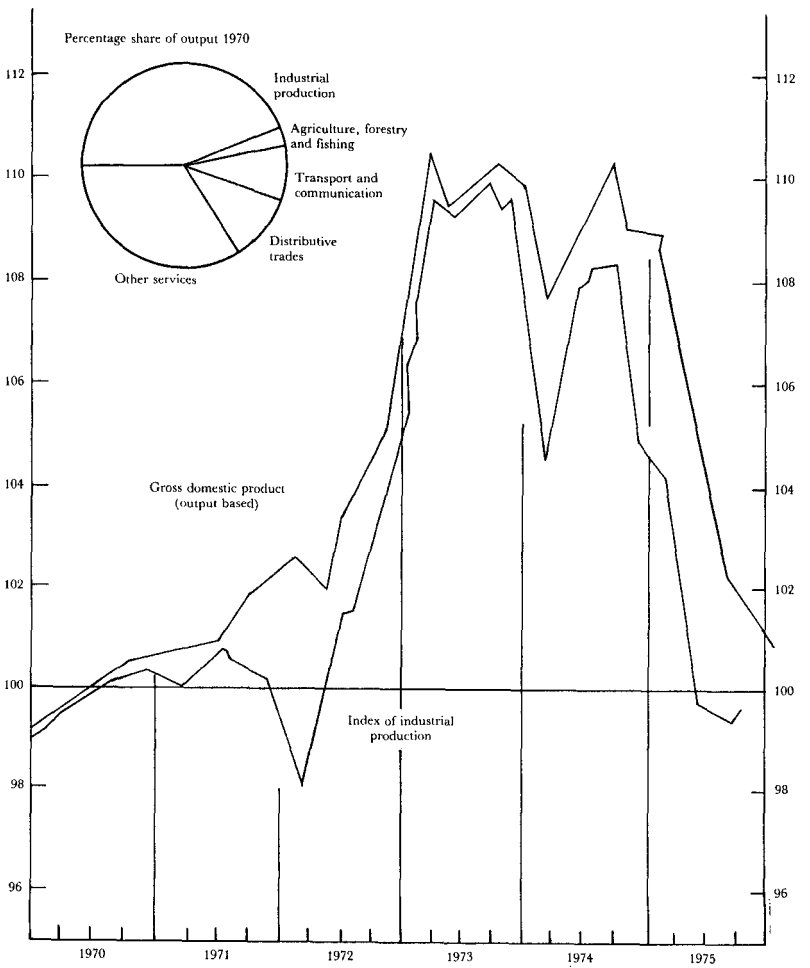
us test the supply-side hypothesis? There is one dramatic period, unique in recent British economic history, when the government introduced substantial tax cuts which impinged on marginal rates; this was in the period of the Heath Conservative Government of 1970–73. The tax cuts were spread over 1971 and to April 1972. Some were reductions in excise taxes on a wide range of goods and others were reductions in income taxes and increased

Figure Two



Source: *Economic Trends* (London, H.M.S.O.)

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personal allowances. Seemingly the response of the economy was both speedy and dramatic. Figure Two will give the reader some idea of the magnitude of the response (although the increase from the first quarter of 1972 is somewhat exaggerated by the fact that there was an abnormally large number of strikes in the winter of 1971–72.) But even allowing for the strikes, the level of output increased by about 8 percent, and industrial production rose by about 10 percent between the first quarters of 1972 and 1973—an astonishing performance for the haggard and turgid British economy.

At first sight, it again seems that the tax cut hypothesis has really hot evidence in its support. Alas, however, it is a false prophet yet again. From September 1971 the growth of the money supply, which had been increasing at something less than 9 percent per annum, was accelerated to a rate of more than 20 percent per annum. While this increase in the rate of growth of money stock can be "explained" in part as a consequence of the tax cuts, there is no doubt that much was due to the reckless expansion of public spending and the lack of control of the new monetary system. In any case the increase in productivity in the manufacturing sector—of about 8 percent—can be more consistently explained in terms of the euphoric phase.[9] And inflation had achieved a rate of 14.7 percent a year by 1974. Similarly, the turn-down of output after 1973, after the settlement of the winter's coal miners' strike, can be explained as the joint effect of the aftermath of the monetary expansion of 1971 and the monetary squeeze that was belatedly introduced in 1973. Again the verdict on the tax cut hypothesis is "not proven."

The Inflation Tax

The two great tax cuts in the history of the United States and the United Kingdom were associated with monetary expansion which, in the case of the United Kingdom, was of unprecedented dimensions and consequences. So it is hard to gauge the separate effect of each event. And since most of the tax cut proponents appear to accept the main findings of monetary history, even if they do not necessarily accept all the tenets of monetarism, one finds it hard to see how their case for the efficacy of a cut in marginal tax

9. For a forecast of these events *see* A. A. Walters, "Inflation, More Inflation. . . and the Devaluation," *Sebag Gilt-edged Review* (May 1972).

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rates can cohabit comfortably with the monetary explanation of the transitory movements of real output. Moreover, this association of an expansion in the rate of growth of the money stock with a temporary surge in output and employment is even more inimical to the tax cut hypothesis than appears at first sight. It is well known that inflation is another form of taxation; thus an increase in the rate of growth of the money supply will transfer resources from private hands to government coffers, not merely by the administration process of "bracket creep," but also by reducing the value of the currency and other forms of government debt in the hands of the private sector. We should properly count the increased marginal tax effects of the inflation in the calculation. This is difficult to do with any precision, but we can make some very rough calculations about the average rate of inflation tax to illustrate the argument that the effect is likely to be important. In the United Kingdom it seems that in 1973–74 the stock of net obligations of the government to the private sector amounted to at least 35 percent of GNP. The inflation increased this by rather more than 10 percent. Taking the product, therefore, we find that the increase in the average tax rate due to the 10 percent jump in inflation was about 3.5 percent of GNP per year. Clearly this is not negligible. Using the same arguments for the United States would give a figure in the region of 1 percent of GNP per year.

The proponents of the tax cut hypothesis, however, may argue—and with much more conviction—that the real marginal tax rates for the average taxpayer have been creeping up inexorably during the great inflation of the 1970s. Although the highest nominal marginal tax rate has increased only slightly, the real tax rate applicable to the average taxpayer has increased with bracket creep. During this period the real output of the U.S. has grown slowly. Output per worker has grown even more slowly, actually declining in some years.[10] Could tax-bracket creep be a cause? Perhaps. But there are several other possible hypotheses. (Reduced growth of the money stock is not one of them, for monetary expanison reached new heights.) These hypotheses include, *inter alia*, the recruitment into the labor force of less productive workers: the demands of environmentalism, OSHA, etc.; the decline in the investment ratio; and so on. It is very difficult to select one winner (or loser) from this field! One naturally suspects that all have been

10. Denison, *op. cit.*, p. 21.

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responsible for some of the decline; but opinions will vary about the main culprit.

Are We Around the Bend?

The evidence from this survey of tax regimes and their effects is decidedly mixed. The cross-country evidence is consistent with the proposition that high marginal taxes are associated with low productivity—but surely no dispassionate observer could pretend that such evidence is anything more than flimsy. And the two great tax cut periods in the United States and Britain are confounded by monetary events of great moment.

We may ask, however, why does one observe this albeit flimsy evidence of the disincentive effects in Europe yet no such evidence in the United States (at least in the mid-60s when the marginal rate was reduced from its historic peacetime high of 92 percent to 70 percent)? Similarly, why is it thought that the tax system of Sweden is very inimical to enterprise and effort compared with that of the U.S.A.? The answer, we believe, lies in the very height of the marginal tax rate.

The famous Laffer curve describes the fact, generally accepted by economists, that if the tax rate is raised from zero toward 100 percent, tax revenue will increase at first, but eventually the incentive effect will reduce total output so much that tax revenue will actually fall. Figure Three shows a Laffer curve[11] with tax revenue increasing as the tax rate is increased, along the path from 0 to B, D, and E, and then decreasing as the tax rate is increased further, along the path from E to C to A.

Consider the evidence of Sweden where, as we have seen, the *normal* marginal tax rate is *about* 80 percent. Then an increase of one eighth in the marginal tax rate to 90 percent will involve a very large percentage reduction in the residual fruits of marginal labor—by half. Then the attraction of addtional leisure, as an alternative to work, is doubled.

To find the effect on tax revenue, we must ask what happens to the worker's effort when his real take-home marginal wage is slashed by half. We find it easy to believe that the resultant doubled attraction of leisure will induce him to reduce his work and effort—in the long run—by rather more than one eighth. If so, the *increase* in tax rates will cause a *decline* in tax revenue and Sweden will be around the bend, so to speak, of the Laffer curve.

11. *See* Jude Wanniski, "Taxes, Revenues, and the 'Laffer Curve,' " *The Public Interest,* 50 (Winter 1978), pp. 3–16, especially p. 4.

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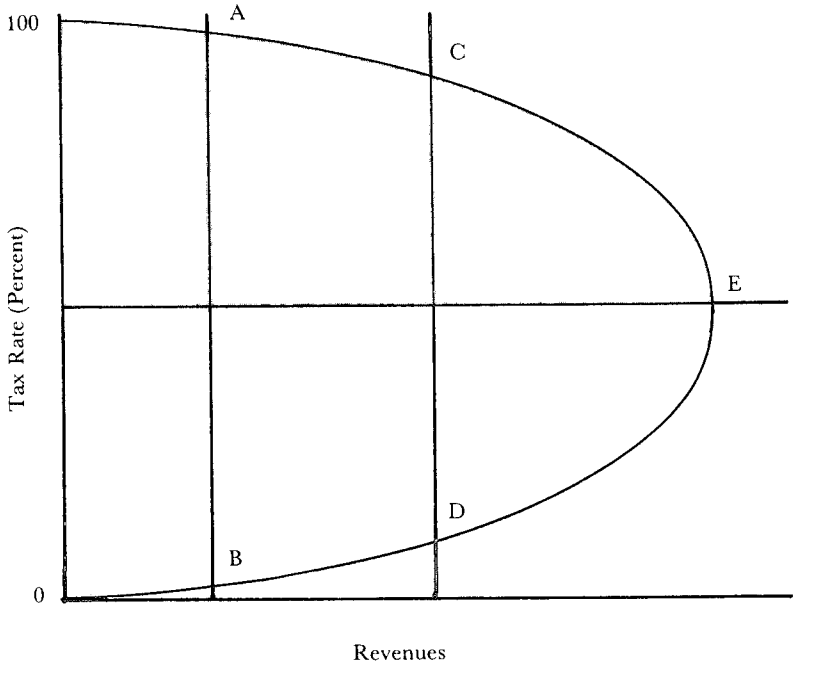
Figure Three

The Laffer Curve



It is, however, important to see this in a realistic time frame. One would not expect an *immediate* decline in work hours from a tax rate increase in Sweden. It takes time to negotiate new contracts, to adjust one's way of life, to examine ways of avoiding the tax, and so on. Thus for a period of perhaps a year or so the government may be able to extract a higher revenue. But after a time the adjustments will take place. If a further tax rate increase puts Sweden around the bend, output will fall so much that taxable incomes, even at the higher rate, bring in less revenue—and so government programs must be cut. Leisure is increased but real private incomes *and* government services are both reduced.

We cannot forbear to point out a potentially serious error in Mr. Wanniski's interpretation of the Laffer curve.[12] Referring to

12. *See* Wanniski, *op. cit.*, p. 5. We are indebted to Peter Brimelow for calling our attention to these passages. The same graph and statements appear in his book *The Way the World Works* (Simon & Schuster, 1978), pp. 97 and 98.

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the diagram, he says, "Revenues and production are maximized at point E." Of course he means that (tax) *revenues* are maximized at E, but *production* is seriously inhibited at E, and is maximized when the tax rate is zero (at the point 0). Later on the same page he says that point E "*is the point at which the electorate desires to be taxed*" (his italics). There can be no warrant for this statement. It would require the electorate to prefer that tax system, above all others, which extracts the *largest possible* revenue from them, even at the cost of serious incentive-based reductions in production. The only country we know of that *might* fit this description is Sweden. The correct interpretation of the Laffer curve is that when the electorate has decided how large a revenue it wants to have taken from it by taxation, the tax rate should then be chosen that places the country on the *lower* half of the Laffer curve, OBDE, rather than on the *upper* half, ECA, so as to have the *largest after-tax income compatible with the desired tax revenue, rather than the smallest.*

The Moral of the Story

We have concluded that tax cuts in the U.S. will reduce tax revenue, not increase it, even though output may rise. The same holds for most other countries, with a few possible exceptions such as Sweden. What then?

The moral is that when we advocate tax cuts, we must be prepared to advocate cuts in government spending at the same time, or else to advocate bigger deficits. Government spending cuts are the better choice. Bigger deficits, if allowed to cumulate, have evil consequences of their own: either more inflation, or more government borrowing from private lenders, which in turn means less chance for private firms to borrow funds needed for capital improvements and expansion. Those tax cut proponents who claim otherwise are offering pie in the sky, without adequate evidence that we will ever taste it.

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Measuring Italy's Underground Economy[1]

ANTONIO MARTINO

Economists have always concerned themselves with the unintended effects of human action. Indeed, economics can be defined as the study of such unintended effects.[2] Politicians seldom pay attention to such secondary effects, concentrating instead on the immediate, intended consequences of their decision. A good example of this contrast is provided by the wonderful story of a little town in Abruzzi, Italy, that was plagued by a large number of vipers. The local politicians thought it wise to attempt to solve the problem by offering a reward for any viper killed. The unintended effect of their action was – as any economist could easily have predicted – an increase in the supply of vipers: peasants started breeding vipers in their basements.

When it comes to finding a way around the law, the size of the unintended consequences of political decisions depends, of course, on many factors, not least the quantity and quality of legislation. But it also depends on cultural factors, such as the ingenuity of the people, their willingness and capacity to evade the law, the history of the country, and so forth. In this regard, it is fair to say that Italy is second to none. The twenty-five centuries of Italian history can be viewed as the struggle between the shrewdness of legislators and the ingenuity of the people in frustrating their efforts.

It is a testimony to the victory of the Italian people over their rulers that so many "new" laws are nothing more than the reinstatement of already existing laws that have never been enforced. Their continuous defeat, on the other hand, has not prevented legislators from continuing in their efforts. Indeed, the

1. This article is a revised version of a paper presented to the Mont Pelerin Society in September, 1980. The money/income hypothesis was suggested to me by Professor Milton Friedman and Professor David Meiselman. I am grateful to Ciro de Falco and Michael O' Connor, of the U.S. Treasury office in Rome, for statistical assistance.

2. In Italian, this can be summarized by a rather appropriate acronym: L. e. n. in. – leggi degli effetti non intenzionali.

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TABLE 1

	M_1 / Y (%)	M_2 / Y (%)
1958	28.6	58.2
1959	30.7	62.5
1960	31.8	65.1
1961	32.8	66.8
1962	34.2	69.4
1963	34.9	69.9
1964	34.2	69.3
1965	36.1	72.9
1966	38.4	77.5
1967	38.8	78.4
1968	40.8	81.5
1969	42.7	83.0
1970	46.2	82.8
1971	50.6	87.5
1972	55.8	94.5
1973	56.7	95.2
1974	54.1	93.0
1975	51.5	97.5
1976	49.9	97.1
1977	49.9	96.1
1978	50.6	97.1

Source: *International Financial Statistics*, IMF; Banca d'Italia; ISTAT. M_1 = Currency + Demand Deposits; M_2 = M_1 + Time Deposits; Y = Gross Domestic Product. M_1 and M_2 data are averages of stocks as of end of quarter for 1958-1966; data for 1967-1978 are monthly averages. All figures are based on the "old" GDP series.

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flow of new legislation is such that it gives an unprecedented meaning to Jonathan Swift's famous remark, "If books and laws continue to increase as they have done for fifty years past, I am in concern for future ages, how any man will be learned, or any man a lawyer."

What follows is an account of the so-called "underground" economy in Italy, which I consider a masterpiece of my countrymen's ingenuity, a second Italian economic miracle which has saved the country from bankruptcy, and an example for the other "free" countries to follow.

Clues in the Money Supply

In the second half of 1978 the Italian economy presented a puzzle to economic observers. The money supply had been consistently growing at the rate of 20-25 percent per year for almost three years. This was true for both the M_1 (currency plus demand deposits) and the M_2 (currency, demand deposits, and time deposits) aggregates. The rate of growth of M_1 had reached the 20 percent mark in the first quarter of 1976 and remained in the 20-25 percent range since that time. The rate of growth of M_2 had been in the same range since the third quarter of 1975. The government deficit – the main source of money creation – had risen from 14,707 billion lire in 1976 (10.4 percent of national income) to 22,531 billion in 1977 (13.2 percent) and was expected to be in the neighborhood of 35,000 billion for fiscal 1978 (reaching an all-time high of 17.2 percent of national income). And yet, the trade surplus was expected to be a record $3.5 billion, and even more puzzling was the fact that, despite the high rate of monetary growth, the rate of inflation was going down, putting an unfair strain on the nerves of those of us who had unwisely predicted an acceleration of the inflationary process.[3]

The short-term puzzle was coupled with a long-run paradox relating to the money/income ratio, which is one way to measure the amount of money people wish to hold.[4] This ratio has been high in Italy (as compared with other industrialized countries) and it has shown the tendency to increase rather quickly over time (see Table 1). It is a known fact of monetary

3. The deceleration of inflation in the second half of 1978 was short-lived. From the beginning of 1979 on, inflation resumed speed. Indeed, the behavior of the inflation rate in Italy in the 1970s conforms – with a

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theory that the demand for money increases more than in proportion with income, so that an increase in the money/income ratio is to be expected.[5] What normally happens is that when income increases, people tend to increase the fraction of their income they wish to hold in the form of money. However, while income increases tend to increase the amount of money people want to hold, inflation tends to have the opposite effect. People tend to economize on their use of cash balances as they experience an erosion in their value due to inflation. Therefore, one would have expected Italy's money/income ratio to decrease, or at least remain constant, and it was hard to reconcile the rapid increase in demand for money with the inflationary history of the country. Furthermore, the absolute

two-year lag – to the quantity theory of money in its most simplistic, mechanical form (see table).

Money (M_1)		Consumer Price Index	
1970-1978 = 100		1972-1980 = 100	
1970	47.3	51.1	1972
1971	56.3	56.6	1973
1972	66.0	67.4	1974
1973	82.0	78.9	1975
1974	89.7	92.1	1976
1975	101.8	109.0	1977
1976	121.0	123.4	1978
1977	149.4	146.0	1979
1978	186.0	175.1	1980*

Source: Banca d' Italia; ISTAT
M_1 = currency & demand deposits. end of year figures.
* = estimate

4. As known, this is one way to measure the demand for money: ". . . the real quantity of money can be expressed in terms of the number of weeks of aggregate transactions of the community, or aggregate net output of the community, to which it is equal." Milton Friedman, "A Theoretical Framework for Monetary Analysis," in R. J. Gordon, ed., *Milton Friedman's Monetary Framework* (Chicago: The University of Chicago Press, 1974), p. 2.

5. "A 1 percent increase in real income per capita has therefore, on the average, been associated with a 1.8 percent increase in real cash balances per capita and hence with a 0.8 percent *decrease* in income

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value of the money/income ratio seemed unusually high when compared with that of other countries.[6]

If we look at Table 2 we see the average M_1/income ratio in the past four quinquennia in Italy compared with the same ratio in the U.S., Great Britain, France, and West Germany. As the table shows, the time pattern of the ratio in Italy differs from that of the other countries in that it increases steadily over the whole period. Even more significant is the fact that the ratio is substantially higher in Italy than in the other countries, and the difference tends to grow over time.

Similar conclusions can be arrived at by looking at the M_2/income ratio (Table 3). Even here the ratio is substantially higher in Italy than in the other countries and the gap grows over time.

Explaining the Statistical Anomalies

There are several possible explanations for the paradox, and they are not mutually incompatible. The first is the one mentioned above: an increase in the demand for money due to an increase in income. (This is usually referred to as the "secular decline in income velocity." Income velocity is the ratio of income to the quantity of money – that is, the inverse of the money/income ratio – so that to say that the money/income ratio has increased is equivalent to saying that the income velocity has declined. This process, which is well known in monetary theory, is a long-term one; hence it is referred to as

velocity." Milton Friedman, "The Demand for Money: Some Theoretical and Empirical Results," in the *Optimum Quantity of Money and Other Essays* (Chicago: Aldine Publishing Company, 1969), p. 113. *See also*, "Judged by the long-period evidence, money is in this respect a 'luxury' like durable consumer goods, rather than a 'necessity' like bread. A one percent increase in real per capita income has on the average been associated with an increase in real per capita money holdings of about one and two-thirds percent." Milton Friedman, "The Demand for Money," in *Dollars and Deficits* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1968), p. 199.

6. The high money/income ratio led many of us to fear that, should people decide to decumulate cash balances, this might result in an autonomous inflationary potential. *See* Giannino Parravicini, "Il mercato monetario e finanziario e la spesa pubblica," *Bancaria*, nn. 5-6, 1977, and Antonio Martino, "Finanza inflazionistica e tasso d'interesse," *Rivista di politica economica*, vols. 8-9, 1977, reprinted in *Rivista di politica economica, Selected Papers*, No. 11, 1977, as "Inflationary Finance and 'the' Interest Rate."

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TABLE 2

M_1 / Y (%)

	1958-62	1963-67	1968-72	1973-77
Italy	31.6	36.4	47.2	52.4
U.S.A.	28.7	24.8	22.3	19.2
Great Britain	24.9	21.3	18.6	16.1
France	30.3	33.9	29.1	27.2
Germany	15.8	15.3	14.8	14.9

TABLE 3

M_2 / Y (%)

	1958-62	1963-67	1968-72	1973-77
Italy	64.4	73.6	85.8	95.7
U.S.A.	43.0	43.7	44.4	45.9
Great Britain	39.2	34.8	33.5	37.6
France	33.5	39.7	42.4	48.6
Germany	34.7	40.6	46.9	57.8

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a "secular" process.) This is true of the M_2 figures for all the five countries considered, although to a differing extent. However, while the secular decline explains why the ratio is increasing, it does not explain why it is so much higher in Italy than in the other countries, nor why it increases at such a rapid rate.

A second possible factor might be an increase in the precautionary demand for money due to the general climate of uncertainty. However, this might explain why the ratio is high but not why it is rising, and it is doubtful that it has played a role for such a long period of time.

A third explanation is given by the lack of alternatives open to small savers. This undoubtedly has played a significant role in Italy. Indeed, time deposits might be the only option available to small savers because the stock market is negligible, and they might lack the kind of sophisticated financial knowledge required to look for other alternatives (such as taking the money out of the country – which, by the way, is illegal).[7] However, it is hard to believe that this factor alone can explain the growth of the ratio in times of high inflation. For if it is true that both demand deposits and time deposits pay interest, it is also true that nominal interest rates on all kinds of deposits have consistently been lower than the rate of inflation, so that real interest rates have been negative. Why didn't the small savers try to avoid the inflation tax by increasing their spending (especially on consumer durables)? After all, this would have been a perfectly legal (albeit, therefore, less attractive) way of avoiding a tax.

A fourth possibility might be some sort of "money illusion." People might have interpreted the high rates of inflation of the past few years as exceptional, and come to the conclusion that negative real rates of interest were going to be temporary. This might have been true in the early stages of the inflationary

7. ". . . the Italian financial system differs institutionally from most of the others examined . . . in that Italian banks pay interest on demand as well as on time deposits . . . . Checking accounts thus serve as a store of value to a greater extent than elsewhere . . ." J. M. Boughton, "Demand for Money in Major OECD Countries," *OECD Economic Outlook Occasional Studies*, OECD, December 1978, p. 39. Another factor that plays a role in making checking accounts an attractive store of value is their secrecy. They can be inspected only in the case of a criminal investigation, thus providing a good hiding place for tax evaders.

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process, but, after many years of double-digit inflation and negative real rates, any "money illusion" must have been eroded.[8]

All of the above, and undoubtedly other factors as well, might have played a role at one time or another. However, even taken together, it is hard to believe that they can account for the fact that the average Italian holds almost one year's income in cash and keeps on adding to his money holdings even though these continue to deteriorate in real terms because of inflation. The "true" explanation might be a completely different one.

A possible explanation for the peculiarity of the Italian monetary figures and trends – an explanation that complements those mentioned above – might be provided by the so-called underground sector of the Italian economy. Should there be such a sector, its existence might explain the behavior of the money/income ratio better than any other hypothesis.

Indeed, if there is such a sector, firms operating in it might not have access to the "legal" credit market. They might, therefore, be forced to hold large amounts of money both in the form of deposits and in cash.[9] This might make the money/

8. Real interest rates on government bonds have thus been estimated:

1972	−0.64	1976	−12.35
1973	−5.76	1977	0.28
1974	−17.44	1978	1.94
1975	−0.42		

Where real rate = nominal rate − rate of inflation of the following year. *See* Rainer Masera, *Disavanzo pubblico e vincolo del bilancio* (Milano: Edizioni di Comunita', 1979), p. 72. Nominal rates on deposits are generally lower than on government bonds. Therefore, real rates on deposits have been even more negative than the ones above.

9. The secrecy of deposits (*see* footnote 7) makes them even more suitable to this task. This is why the ratio of currency to demand deposits, which has been used as an indicator of the size of the underground economy in other countries, would not be as meaningful in Italy. For, given the secrecy of deposits, illegal activities and tax evasion do not necessarily imply the use of currency but can be settled through checks. For a study of the ratio of currency to demand deposits (the "currency ratio") as an indicator of the size of the underground economy in the US, *see* Vito Tanzi, "Underground Economy, Income Tax Evasion, and the Demand for Currency in the United States, 1929-1976," I.M.F. unpublished paper, 1979. *See also*, about the "cash" economy in England, *Tax Avoision*, The Institute of Economic Affairs, Readings 22, 1979.

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income ratio higher than otherwise. The growth of the underground sector relative to the whole economic system could, on the other hand, explain why the money/income ratio has been increasing.

Still more important, if income produced by the underground economy is not recorded in income statistics, the "true" money/income ratio is lower than the recorded one. This might explain why the ratio is so much higher in Italy than elsewhere, and why it keeps on growing.

Needless to say, this theory is conjectural. Just as the few superficial remarks above about the demand for money do not amount to a statistical analysis, to say that the existence of the underground sector might explain things does not *prove* anything in any meaningful sense.

However, if this conjecture is valid, and if the existence of the underground economy is the only factor behind the difference between the ratio in Italy and that in the other countries, then statistically recorded income might fall short of "true" income by a very large fraction. It would not be surprising if official income statistics were, say, 30 percent below the mark.

The hypothesis above is based on the implicit assumption that monetary statistics are more reliable than income statistics. If something is wrong with the recorded ratio, then the ac-

It could be argued that, since demand deposits can serve the same purpose as currency because of their secrecy, the ratio of M_1 to M_2 (the latter being made up of currency, demand deposits, and time deposits) could be used in place of the currency ratio. Now, the M_1/M_2 ratio in Italy has shown the same time pattern generally attributed to the ratio of currency to demand deposits – that is, it has been *falling* with economic development. However, there is a notable exception: in the quinquennium 1968-1972 the ratio had been *increasing*, reaching a peak in 1973, and then resuming its downward trend. It might be that the exceptional behavior of the ratio during that time is somewhat connected to the underground economy (it was a period of labor unrest on a larger than usual scale, and of particularly foolish legislation). However, any hypothesis would require extensive statistical analysis.

	M_1 / M_2 (%)
1953	68.20
1958	57.98
1963	57.04
1968	56.75
1973	66.57
1978	53.15

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ceptance of the hypothesis means putting the blame on the denominator (GNP) rather than on the numerator (M_2).

This assumption was confirmed by the reaction of the government statistical office (ISTAT: Central Institute of Statistics) to the money/income hypothesis. As a result of such a reaction, ISTAT unintentionally confirmed the unreliability of income statistics and the existence of a substantial "underground" economy. In November 1978 a brief summary of the hypothesis was published in a major national newspaper.[10] It was suggested that, as a "simplistic arithmetical exercise," paradoxically supposing that the "true" ratio had remained stable over time, the underground economy's contribution to national income in 1977 might have been "in the neighborhood of 40 percent," so that 28 percent of GNP was not recorded in the official income statistics. The article appeared at a time when many people were talking about the underground economy, and, maybe because of that enthusiasm, the "simplistic arithmetical exercise" was taken as a serious estimate.[11]

So in February 1979, ISTAT set up a Committee to study the reliability of income data and the problem of the underground economy (Commissione per la formazione e gli impieghi del reddito). On the occasion of its first meeting, in February 1979, ISTAT senior statisticians strongly criticized the money/income hypothesis on two grounds. First, they argued, monetary statistics were not necessarily more reliable than income data. Second, an income of 30,000-60,000 billion lire could not conceivably pass unrecorded. The explanation given for the unusually high Italian M_2/income ratio was the one mentioned

10. Antonio Martino, "L'economia clandestina ci ha salvato dal baratro," *Il Giornale nuovo*, November 19, 1978.

11. Shortly after the appearance of the article, the authoritative Italian economic weekly *Il Mondo* published a survey of opinions on the size of the underground economy ("Il tesoro sommerso," *Il Mondo*, December 13, 1978), in which it quoted me as saying that income produced by the underground economy actually *was* in the neighborhood of 40 percent. In the same survey, several economists, industrialists, and government officials — using different methodologies — suggested widely different *estimates* of the size of the underground economy, ranging from 15 percent to 35 percent of national income. My "estimate," therefore, turned out to be the most extreme. ISTAT senior statisticians were also quoted in the same survey. For them, an error of 5 percent was conceivable, although unlikely, but "people who talk of 30-40 percent don't know what they are talking about."

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TABLE 4

Gross National Product, Market Prices
(Billions of lire)

	Old figure	Revised figure	Percent difference
1975	115,072	125,378	+ 9.0
1976	143,849	156,657	+ 8.9
1977	172,988	189,978	+ 9.8
1978	201,000	220,743	+ 9.8

Source: F. Reviglio, *Il significato economico della rivalutazione dei conti nazionali*, unpublished paper, ISPE, June 1979.

above: the lack of alternatives open to small savers and the high nominal rates on deposits. Finally, it was suggested that the statistical error in the official income figures was unlikely to exceed 700 billion lire, or 0.35 percent! The arguments given by ISTAT in defense of official income statistics were very plausible.[12] However, it was hard to believe that the error was only on the order of one-third of one percent!

This skepticism was confirmed (and faith in the reliability of ISTAT figures shaken) when in the following month, March 1979, after increasing criticism of official figures, ISTAT decided to revise its GNP time series from 1975 onwards. *Income figures were revised upward by almost 10 percent!*

A nice byproduct of the decision was the possibility it offered to ridicule believers in "fine tuning." Arguments going on at that time about the desirable size of the target rate of growth – the alternative positions differing by less than 1 percent – were made to look absurd by the official admission that income figures had been 10 percent underestimated.[13]

12. Indeed, so much so that I decided not to publish a somewhat longer version of the money/income hypothesis that I had already completed. It was then published the following month. *See* Antonio Martino, "Metamorfosi della ricchezza sommersa," *Alleanza*, March 1979, pp. 22-24.

13. Antonio Martino, "Quando scienza economica significa fumo negli occhi," *Il Giornale nuovo*, April 22, 1979.

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Moreover, the decision encouraged further speculation about the size of the underground economy,[14] and lent credibility to the money/income hypothesis.[15]

Another Italian Economic Miracle?

The fact that six million persons are quietly working in defiance of the law amounts not only to a huge social rebellion but also to a new kind of conflict, one very different from the self-destructive kind in Britain. Faced with an untenable situation, huge numbers of Italians have decided to ignore rather than try to change the system.

C. Matthews
"'Underground' Workers Keep Italian Economy Running"
International Herald Tribune, Feb. 5, 1979

The existence of a substantial underground economy helps explain a few puzzles relating to the labor market. The "activity rate" – the ratio of the labor force to total population – has been declining rapidly and is presently at a level that is generally considered exceptionally low. According to ISTAT figures, in 1978 there were 21,730,000 Italians in the labor force out of a population of 55,806,000, or 38.9 percent. If one excludes the 1,571,000 unemployed, the activity rate falls to 36.1 percent.[16] ISTAT stresses that the decline of the activity rate is a historical process: in 1861 it was roughly 60 percent, and by the beginning of the century it had dropped to 50 percent. However, some economic observers believe that the decline in the activity rate cannot be interpreted as a "normal" continuation of a historical trend. They claim that the ratio of the labor force to total population has dropped from 44 percent at the end of the 1950s to less than 34 percent in 1976 and that such a decline is much sharper than in any other industrialized country.[17]

14. For example, *see* "Tirata a galla puo' esplodere," *Il Mondo*, April 20, 1979; Luigi Frey, "Dal lavoro nero alla misurazione del reddito 'sommerso'," *Notiziario Ceres di economia del lavoro*, May 16, 1979; "E dall' economia sommersa emerge una sorpresa," *Il Mondo*, June 29, 1979.

15. Barbara Ellis, "Italy's prosperous anarchy," *Forbes*, April 2, 1979.

16. *See I conti degli Italiani* (Rome: ISTAT, 1979), p. 5.

17. Bruno Contini, *Lo sviluppo di un' economia parallela* (Milano: Edizioni di Communita', 1979), p. 15.

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According to ISTAT, several factors account for the decline in the activity rate. First, there are demographic changes which have increased the percentage of total population made up of people older than 65 and younger than 14. Then, there have been migratory movements which have in the past contributed to the decline in the rate. Third, and more important, there has been an increase in the number of students who stay in school beyond compulsory education, and an increase in the number of years they remain in school. Another factor is the decline of agricultural employment, which might have meant that some members of the family (especially women and children) have left the labor force. More specifically related to our point is the last factor: the "improvement" in social security benefits and their extension to still other groups in society has led many people to drop out of the "official" labor force, either by early retirement or by qualifying for a pension for the "invalid" (i.e. disabled) citizen. The number of these has swollen in recent years to an incredible 5,437,528, almost 10 percent of total population, in 1979. Of the 12,603,678 people who draw a pension from INPS (the Italian equivalent of Social Security), 43 percent are "disabled citizens."[18] Some of these people are not included in the labor force even though they often work (as in the recent case of a professional photographer who was drawing a pension for the blind), and the same is true for those on old-age pension.

A host of studies has pointed out in recent years the inadequacy of official figures of the activity rate. First, some observers have estimated that about one half of the officially unemployed hold "unofficial" jobs (while drawing unemployment benefits).[19] Second, roughly 1,400,000 youngsters between the age of 14 and 29 hold "precarious" jobs while being officially considered students, and, therefore, outside the labor force. Third, about 1,250,000 people above 50 years of age, while drawing a pension for old age, "unofficially" work. Fourth, almost 600,000 women between 30 and 49 years of age, while being classified as housewives and excluded from the

18. *See* "Siamo un popolo di invalidi, almeno per l'INPS," *Il Giornale nuovo*, March 29, 1980.

19. After this paper was written, on June 12 of this year, the Ministry of Labor made the results of a survey known: in Naples 57 percent of those listed as unemployed held a stable job.

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labor force, hold occasional and precarious jobs. Finally, 235,000 minors between 10 and 15 years of age, although excluded by definition from the labor force, do work. This last figure, according to other sources, should be increased to 430,000.[20]

Another factor that plays a role in supporting the idea of an underground economy in the labor market is the presence of foreign workers. These for the most part hold jobs that Italians consider menial or unpleasant, for example, servants or miners. Significantly enough, some of them come from the communist world. Thus, the old communist leader Giorgio Amendola recently cited the example of Polish miners employed in Sardegna (a region with a high rate of unemployment) as evidence that unemployment statistics are misleading.[21] Estimates of the number of foreign workers employed in Italy widely differ, for many of them enter the country illegally. However, their number should not be less than 500,000 and might well be close to 750,000.[22]

Considering these various factors, it is estimated that the underground economy employs around 6 million persons.[23]

To this so-called "non-institutional" labor force, one must add moonlighters. This phenomenon takes place on a grand scale in Italy and involves all categories. My favorite "Friedman's law" is thus undoubtedly confirmed. Professor Friedman has argued that university professors all over the world tend to have the same income; what varies from country to country is the number of jobs they must hold in order to make that income. Not all income from moonlighting is recorded, and it obviously adds to the underground economy. Moonlighting apparently involves 1,300,000 people.[24] However, estimates are highly unreliable, because of the illegal element often present.

20. Luigi Frey, *op. cit.*

21. Giorgio Amendola, "Interrogativi sul 'caso' Fiat," *Rinascita*, n. 43, November 9, 1979, pp. 13-15.

22. Giuseppe Alvaro, "La valutazione dell'economia sommersa: principali problemi statistici ed economici," I.S.P.E. unpublished paper, 1979.

23. The estimate of 6 million underground workers is due to Luigi Frey, *Tendenze dell'occupazione* (Rome: Ceres, 1978). Such estimate is supported by a number of studies that show that the activity rate is in many cases 20 percent higher than the official one. *See* Bruno Contini, *op. cit.*, and the bibliography.

24. Giuseppe Alvaro, *op. cit.*

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Examples of moonlighting could fill a whole book. The Rome Post Office, which employs 1,500 people to distribute the mail in the city, handles the same amount of correspondence handled by "Romana Recapiti," a private delivery agency, which employs 300. Needless to say, "Romana Recapiti" is faster and more reliable than the Post Office. But the interesting thing is that most of the 300 people working for "Romana Recapiti" are moonlighting employees of the Post Office. Not surprisingly, the rate of absenteeism at the Post Office is in the neighborhood of 50 percent.

Indeed, absenteeism and moonlighting go hand in hand and represent a typical feature of contemporary Italy. It has been acutely observed that Italians are socialist in the morning and capitalist in the afternoon. What this means is that many bureaucrats work for the government in the morning and moonlight in the afternoon. They hold the government job because it entitles them to retirement schemes, health insurance, fringe benefits, and, of course, a salary, with very little (or no) work. Then, in the afternoon, they moonlight for some capitalist "underground" organization, where they make money and show their talents and efficiency, "unprotected" by labor unions or social benefits. This is particularly true of the bureaucracy of government ministries that has succeeded in maintaining the 8 am to 2 pm working hours first introduced at the time of World War II. Needless to say, almost no one reports to work at 8 am and most leave before 2 pm. Thus, ministries have been defined as buildings where those who are a bit late to work meet on the stairs those who leave work a bit early.

Absenteeism is typical of the "official" economy and is present in all sectors: public, semi-public, and private. It is the inevitable consequence of the legislation that has been introduced to "protect workers' rights." When I was teaching in Naples, I was approached by someone who wanted to work as a research assistant. When I told him that no position was available and that, therefore, I could not pay him, he replied that he was willing to work for free since he already had a job. "How are you going to find the time to do research?" I asked him. He answered that he had plenty of time, because he was "exonerated from work" being a union leader.

A wonderful example of the effects of legislation on absenteeism and its effects on production is provided by the case of Alfasud, the semi-public automobile factory of the Alfa Romeo

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company. "When things are going well at the Alfasud car plant, only about one in five of its workers do not show up. Under such optimum conditions, car production may reach 520 units a day in a plant built to produce 1,000 . . . Last year it lost some $100m. Since it belongs to the state . . . there is of course no talk of closing it down." The high rate of absenteeism at Alfasud should be blamed on ". . . an anomalous system of penalties for absence. A worker who arrives half an hour late to the factory is docked part of his salary, whereas if he reports sick he is not penalized. But sick leave is only legitimate if it lasts for a minimum of three days. So a worker who misses a train connection is better off financially if he turns round and spends the next three days at home rather than going on and arriving late. The company is penalized doubly: first by the absence of the manpower, and second because the first three days of illness are not covered by the workers' social insurance, but are borne by the company itself."[25] What the author of the article fails to mention is that the connection between absenteeism and the underground economy is confirmed, in the case of Alfasud, by the sharp increase in the rate of absenteeism at harvest time. Many of Alfasud employees "went to the assembly line . . . directly from farming"; they have retained their farms and take care of them by not reporting to work.

Absenteeism is, of course, much higher in the public than in the private sector. Newspapers have recently come out with the story of a street sweeper in Palermo who has totalled 1,278 days of absence in five years,[26] and that of an employee of the public transportation company in the same city who totalled 700 days of absence in 27 months.[27] Both of them claimed that they could not work because of "hypochondriasis" – a nervous disturbance because of which they were convinced of being sick. It is far from clear that they will lose the legal case brought against them by their employers. Absenteeism is also present in the private sector, although to a smaller extent. And yet, Fiat claims that in 1979 it lost the production of 300,000 cars

25. "Alfasud, Italy's well-intended industrial disaster," *The Economist*, March 10, 1979, p. 81.

26. "Controcorrente," *Il Giornale nuovo*, January 6, 1980.

27. "Assente 700 giorni in 27 mesi di lavoro," *Il Giornale nuovo*, February 5, 1980.

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because of absenteeism and strikes (both due to foolish legislation and connected to the underground economy).[28]

Political Effects on the Labor Market

Absenteeism is not the only factor making labor costs in the "official" economy artificially high. Another element is social security contributions. In 1975, direct pay as a percentage of total labor costs in industry was 50 percent in Italy, as compared to 76 percent in the United Kingdom, 63 percent in West Germany, 58 percent in France, Holland, and Belgium. On the other hand, social security contributions were highest in Italy: 28 percent versus 12 percent in the United Kingdom, 18 percent in West Germany, 23 percent in Holland and Belgium, and 24 percent in France.[29] In some cases, social security contributions amount to more than 55 percent of total labor costs. The incentive this provides to both workers and employers to try to evade the social security tax by creating "underground" jobs needs no comment.

Another factor that plays a large negative role in the "official" economy is labor mobility. As one industrialist remarked: "Hire someone in your factory and it's like you're married. You can't fire him."[30] Besides the fact that in the "official" economy employers cannot make mistakes in the sense that it is almost impossible to fire someone, labor mobility is also greatly reduced in the sense that labor unions oppose overtime work,[31] and even resist mobility within the same factory.

Finally, one must mention the high rate of increase in nominal wages that the unions succeed in obtaining in the "official" economy thanks to their monopoly power. The average annual increase in hourly earnings in manufacturing from 1965 to 1977 has been higher in Italy than in any other EEC country: 15.2 percent, as compared to 12.2 percent in France, 12.1 percent in Belgium, 12 percent in the United

28. The effects of absenteeism and strikes on productivity are illustrated by the fact that Alfa Romeo currently produces 7.2 cars per worker per year, and Fiat 11, as compared to Opel's 29 and Toyota's 43. Fiat claims that it can never use more than 65 percent of its productive capacity.

29. *Primo Rapporto CSC sull' Industria Italiana* (Rome: Confederazione Generale dell'Industria Italiana, 1978), p. 28.

30. *See* Barbara Ellis, *op. cit.*

31. For a fascinating story, *see* "No overtime please – we're Italian," *The Economist*, July 8, 1978.

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Kingdom, 10.9 percent in Holland, and 8.4 percent in West Germany.[32]

On top of all of this, strikes, which are typical of the "official" economy (and absent in the underground economy), occur at a rate that has earned Italy the nickname of "strikeland."[33] In the face of absenteeism, high social security costs, reduced or non-existent labor mobility, labor union pressures, rapidly rising nominal wages, and strikes on a large scale, it should not be surprising that firms in the "official" economy are not doing very well. A good example is given by Iri, the giant state holding, Europe's largest industrial employer, which has succeeded in accumulating debts for an incredible amount: 30,000 billion lire (some $34 billion).[34]

Mention must also be made of tax evasion and its relation to the underground economy. It is generally believed that Italians do not pay taxes, or that they pay less than the people in other European countries. The statement is wrong: the ratio of total public sector spending to gross national product — which is the only correct measure of the cost of government — has risen from 49.2 percent in 1976 to 55.8 percent in 1979.[35] However, it might conceivably be true that there is some correlation between the underground economy and tax evasion, and that if all income produced in the country were correctly recorded, those percentages would be much smaller. It is an undeniable fact that Italians do not object to tax evasion on

32. *The Economist*, February 25, 1978.

33. Number of working days lost through industrial stoppages, per 1000 employees, per year. 1963-1978 average.

Luxembourg	0.0
Holland	36.2
West Germany	47.3
Denmark	206.3
Belgium	274.8
France	284.0
United Kingdom	499.8
Ireland	924.7
Italy	1,412.9

34. "Il 'buco' dell'Iri e' di 24 mila miliardi," *Il Giornale nuovo*, February 6, 1980; "Superano i 30 mila miliardi i debiti Iri," *Il Giornale nuovo*, March 20, 1980.

35. Franco Reviglio, *op. cit.* The percentages above refer to the old GNP figures. They are reduced by some 5 percentage points if one refers to the new GNP figures.

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moral grounds (except, of course, when it is someone else who evades). For instance, my dentist told me that he was not going to take care of one of his patients anymore, "because," he said indignantly, "she asked me to give her a receipt for her payment." The receipt, incidentally, is legally compulsory, and it is a criminal offense not to issue it. However, many people simply ignore the law; plumbers, doctors, lawyers, and other professionals seldom bother to issue the compulsory receipt. Obviously, their income goes unrecorded, and it adds to the size of the underground economy.[36] It is a sad byproduct of the discussions about the underground economy that the government is now engaged in an all-out war against tax evasion.[37]

I would like to conclude on an optimistic note and venture to predict that the efforts of legislators will keep on being frustrated by the ingenuity of my countrymen. For what has been argued in this paper is that lawlessness can be beneficial. Monetary figures, and a great deal of evidence in other areas, suggest that the underground economy in Italy produces anywhere between one-fourth and one-third of national income. Obviously, activities within the underground economy are often carried on by violating the law – income tax evasion, evasion of social security contributions, violation of labor laws, and outright fraud (as in the case of pensions).[38] However, if citizens

36. The fact that professionals evade taxes is implicitly acknowledged by our tax laws. Income tax rates are higher for professionals than for people on fixed income, with the justification being that "professionals evade taxes."

37. One of the first measures introduced is that it is now compulsory for restaurants and hotels to give their customers a receipt, and even customers are fined if they leave the restaurant or the hotel without such a receipt. Several other measures are now being introduced.

(The compulsory receipt for restaurants and hotels was introduced at the time this paper was written. The only effect it seems to have produced so far is that at the end of the meal the waiter will ask you if you want a legal receipt – usually in a threatening tone of voice. If you insist on the legal receipt, he will make it clear that he will have to charge 15 percent more!)

38. Of course, some of the activities in the underground economy not mentioned in this paper are of the "traditional" criminal type, such as prostitution, gambling, drug traffic, contraband, kidnapping (a growth industry at the moment), extortion, etc. Here the social benefits of violating the law are doubtful or absent. But it can be argued that their existence is part of the social cost of an excessive amount of bad legislation.

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respected the law, most, if not all, of these activities would simply not exist, and the social cost of law abidance would be enormous. These activities are undeniably beneficial to society. However, they also entail a social cost, for when people start violating the law they end up violating all laws, good and bad. In order to find a solution, we should remember the words of Frederic Bastiat: "No society can exist unless the laws are respected to a certain degree. The safest way to make laws respected is to make them respectable. When law and morality contradict each other, the citizen has the cruel alternative of either losing his moral sense or losing his respect for the law."[39] Until the quality of legislation is improved and its quantity restricted, the best Italians can hope for is affluence from lawlessness.

39. Frederic Bastiat, *The Law* (1850) (Irvington-on-Hudson, New York: The Foundation for Economic Education, Inc., 1974), p. 12.

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Gold Prospects

HENRY HAZLITT

A gratifying number of economists have recently come out in favor of restoring a gold standard, but less than a handful have ventured to propose a specific blueprint for achieving that goal. Outstanding among these has been Arthur B. Laffer. His plan is complicated in its details, but essentially it is a proposal to return to a fractional gold standard—some might say a fractional gold-exchange standard—and to take certain precautions to assure its maintenance.

Before I examine what I think is wrong with his specific suggestion, let me make clear that I fully agree with him on the desirability—in fact the necessity—of returning to a gold standard.

The gold standard was not some artificial contrivance. Historically, men may almost be said to have begun with one. For reasons too numerous to spell out here, individuals have always valued gold for its own sake—and also have known that nearly everyone else valued it. It undoubtedly served as a medium of exchange—as a money—before governments started stamping coins of uniform weight and fineness. When paper money developed, it circulated and took its value from the fact that it was convertible on demand into a specific weight of gold. As long as the promise of convertibility was trusted, the paper money had exactly the value of the gold into which it was convertible.

The moment that convertibility ceased, because of the over-issuance of notes—of promises—or for any other reason, the paper units began to lose their value. Because everyone felt the need for a medium of exchange, it was found that the now inconvertible paper continued to circulate—at a discount. It was also found that the size of the discount bore a close relation to the amount by which the issuance of the paper money was increased.

This gave birth to the belief that the previous convertibility-on-demand into gold had been unnecessary, and that all a government really had to do was to stamp a certain number of scraps of paper with a name and a figure and declare them to be a money, worth so-and-so much in terms of gold (though not convertible into it) or in terms of other money. Thus, the argument continued, the value of this paper-money unit could be precisely con-

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trolled by the government, which controlled the amount issued.

This was the quantity theory of money—now embraced by the self-styled "monetarists"—in its precise form. It will be noticed that this idea involves the unspoken contention that the value of money is determined entirely by its quantity, and has nothing whatever to do with its quality—a contention never put forward by economists for any other commodity or thing of value.

The belief is false; and even if it were true, it would be made practically irrelevant by the fact that no government on record, managing an inconvertible paper currency, has been able to refrain for any extended period from increasing its issue. For a country to have an inconvertible currency is to be inflating.

The outstanding virtue of the gold standard, in brief, is not that it is perfect or "scientific," but that under it the purchasing power of the monetary unit is made completely independent of the policies of governments and politicians.

Dr. Laffer's plan would, from the beginning, attempt to fix a new permanent "price" for gold in terms of the dollar, by making the paper dollar convertible into gold at that standard price.

How would we assure ourselves that the new fixed gold price would not bring about either a fresh inflation or a severe deflation? Dr. Laffer's proposal is this: "The U.S. would announce its full intention of returning to a convertible dollar at some prespecified time in the future; say three months." During those three months "neither the Federal Reserve System nor the U.S. Treasury would intervene in the foreign exchange markets or have any net intervention in the open market." On the day the "transition period" ended, the Fed would establish a new parity between the dollar and gold "at that day's average transaction price in the London gold market. This will be the official value of the dollar and price of gold."

Following earlier precedent, "The Federal Reserve will attempt over time to establish an average dollar value of gold reserves equal to 40 percent of the dollar value of its liabilities." Dr. Laffer provides an elaborate formula for achieving this result.

I need not go into all the details of the plan here, but at least one other important provision should be mentioned. Dr. Laffer's "target" gold reserve, as we have just seen, would be 40 percent of the Fed's liabilities, or what is more often called "the Monetary Base." But if, in spite of the various devices he suggests to protect the gold reserve, actual gold reserves fall below 25 percent or rise above 175 percent of the monetary base, all official interconvert-

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ibility of dollars and gold would cease. "The dollar's convertibility will be temporarily suspended and the dollar price of gold will be set free for a three-month adjustment period."

First Step—Stop Inflation

Dr. Laffer has evidently given a great deal of thought to his plan, and has based it in part upon an official U.S. Government proposal put forward in 1972 (later published in the *Economic Report of the President* of January 1973).

But to me what is most striking about Dr. Laffer's proposal is what it neglects to mention. The first thing Americans would want to know about any proposal to make the dollar convertible into gold is whether such a promise would or could be kept. Obviously it could not be kept for more than perhaps a few weeks if we continued to inflate our currency at recent rates. The American public, first of all, would have to be assured that the current inflation has been—or would promptly be—brought to a halt.

To provide this assurance, at least two things would have to be done. First, the monthly and annual rate of expansion of the money supply would have to be stopped or drastically reduced. For a few months just before the 1980 election, expansion was running at an annual rate of some 17 percent. It must be brought down, if not to zero, then to not more than an annual rate of about 3 percent. This reduction in the expansion of the money supply is not something to be promised for the future, but to be started immediately. The other measure that must be taken is to bring the federal budget into balance, with a surplus, and to keep it balanced for, say, three years, before convertibility of paper dollars into gold is actually begun.

Dr. Laffer seems to think that once convertibility is announced these anti-inflation measures will take place almost automatically. Such an assumption is not realistic. In 1968, for example, the dollar was still ostensibly convertible into gold; but our government not only continued to run deficits—as it had been doing for the preceding seven fiscal years—but it increased the deficit in that fiscal year to $25 billion, the highest since World War II. At the same time, the rate of monetary expansion continued at far above reasonable levels. The result was that dollar conversion was first suspended in fact, and then suspended officially in 1971.

Once convertibility is established, confidence must be maintained at all times that it can and will be continued.

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Dr. Laffer is aware of the importance of maintaining an equilibrium between the purchasing power of the dollar and the "price" of gold. He recognizes that a wrong conversion rate could bring about either a fresh wave of inflation or a serious deflation. But he is much too confident that the method he has suggested will bring about the appropriate relationship. He thinks the prospect of a free gold market three months ahead will tell us what that is.

But there is no reason to be much more confident that the gold market three months from today will give us a more "correct" or "appropriate" conversion rate for the dollar than did the gold market of yesterday. True, the price fixed by the market three months from today will embody and reflect all that traders in the market then know or believe about both gold and the dollar. But the market three months from *then* will do the same for that more remote date; and it is overwhelmingly probable that its verdict will then be different. On any given day—no matter when—the market can see but dimly and uncertainly into the future still ahead.

The solution, as I see it, is to postpone the decision of the exact conversion rate of the dollar into gold until certain other steps have been taken. The American government should begin not by fixing a new "price" for gold, but by minting gold coins—of an ounce or quarter-ounce, or even better, of a round metric sum, like a ten-gram piece. These could be sold off in small sums at periodic auctions, or daily at a price based on the free market price. The government would of course add an appropriate seigniorage charge, so that it would not profit speculators to buy the coins for bullion appreciation. (Those who want to speculate in gold bullion could always buy it cheaper on the free market.)

These coins would change hands for whatever they would buy in a free market. There would be a dual set of prices—one in gold and one in currency, with no fixed relationship between them; the "exchange rate" between the dollar and gold would change daily. Once the paper-money inflation had been brought to a halt, or when the paper dollar had for a reasonable time stopped depreciating in terms of gold, it would be safe to adopt a fixed official conversion rate for the dollar, and unify the price system.

So two initial weaknesses of Dr. Laffer's plan are that it would be put into effect before the termination of inflationary policies had been reasonably assured, and that it would probably set an unworkable "price" for gold.

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The Necessity for Confidence

There are other strong reasons for doubting that Dr. Laffer's gold convertibility scheme would be fully trusted or indefinitely maintainable. It would be only a *fractional* gold standard. That is to say, the "gold backing" for the outstanding dollar volume of paper money and credit would be only a fraction of that volume.

Of course, this was precisely the kind of gold standard that the Western world maintained between the mid-nineteenth century and 1914, and restored in even more attenuated form later. But we must remember that this system finally broke down, mainly because credit expansion continued recklessly and the gold reserve against it became a smaller and smaller fraction.

In August 1971, when President Nixon officially suspended gold payments, the U.S. gold stock was only 2.7 percent of the outstanding quantity of money and credit. (M-2, which included both demand and time deposits, has expanded to $454.5 billion. Against this, the gold stock was only $12.3 billion—291.6 million fine troy ounces at $42.22 an ounce.) And the situation was much worse than these comparisons indicate, for the world at that time was on a "gold exchange" standard. While the dollar was convertible into gold, all other currencies merely had to keep convertible into the dollar. This meant that the American gold reserve in effect served as the ultimate gold reserve for more than a hundred other currencies. So the world's available gold reserve was only a small fraction of 1 percent of the paper-money liabilities against it.

Dr. Laffer proposes to make a fresh start with a much greater fractional gold reserve than that, of course; and he is able to propose it because the dollar has depreciated to the value of a far smaller amount of gold than in 1971. Where it was set at one-forty-second of an ounce ten years ago, it will amount now to perhaps only one-seven-hundredth of an ounce. This means that the same percentage of gold-backing of the same nominal money supply in 1981 as in 1971 would require less than one-sixteenth of the amount of gold. (Paper depreciation can enormously multiply the apparent amount of gold because we habitually think of its quantity not in ounces or tons but in "dollars.")

Dr. Laffer's target gold reserve is 40 percent: the minimum formerly set by the old Federal Reserve Act. But this reserve, it must be noted, is not set against the total money stock of the country, but only against the note and deposit liabilities of the Federal Reserve System itself. These are equivalent to what is called "the

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monetary base." On October 15, for example, this base was $164.6 billion, and 40 percent would be about $66 billion. But the full money stock on October 15, as measured by M-1B, was $410.9 billion, and $66 billion would be only 16 percent of that amount. I doubt whether that would be seen as an adequate gold reserve in the eyes of people who had just emerged from being forced to use depreciating paper money for ten years.

But what we have been talking about is what Dr. Laffer regards as his *"target"* gold reserve—that is, the desired or optimum percentage. He expects that in practice the gold reserve percentage may fluctuate very widely. "A gold reserve band will be instituted whereby a reserve level equal to 70 percent of the dollar value of the Federal Reserve's liabilities would be designated as the Upper Reserve Limit and a reserve level equal to 10 percent of its liabilities would be designated as the Lower Reserve Limit." When such reserve limits were approached on either side, Dr. Laffer outlines a complicated set of measures that "the monetary authority" would be obliged to take. Finally, if these "gold reserve protection measures" were inadequate to preserve the actual value of reserves within his prescribed limits, "the dollar's convertibility will be temporarily suspended and the dollar price of gold set free for a three-month adjustment period."

The first thing to be said about all this is that it is much too complicated and gadgety. The operations of a gold standard should be simple, automatic, and easy to understand. The chief function of a gold standard, after all, is to provide a dependable check on the expansion of money and credit and to inspire the fullest possible confidence. If it contains provisions for suspending gold payments, the very existence of such provisions is likely to give rise to constant rumors that those provisions may be invoked.

Can the U.S. Do It Alone?

One further weakness must be noticed. Not only will Dr. Laffer's gold standard be only a fractional gold standard, but there are reasons for fearing that it will provide the world once again with only a gold-exchange standard—a dollar standard, such as we had in the twenty-five years or so preceding 1971. For Dr. Laffer suggests that we go ahead alone, and promises only that our example will provide an "attraction" for foreign governments "to reestablish parity between their currencies and the dollar." No doubt some other countries would do this. But unless they went further, it would put them once again merely on a dollar stan-

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dard, not on a direct gold standard. They would be able to maintain gold-parity for their currencies without the expense and responsibility of maintaining their own gold reserve. This would require us to maintain much greater gold reserves, and follow a much more cautious monetary policy, than otherwise. Our own politicians and "monetary authorities" were not up to this task ten years ago. Would they be up to it now?

A final weakness of the Laffer plan is that it contemplates not only keeping the inflationary Federal Reserve System but increasing the Fed's discretionary powers. Dr. Laffer considers it a special advantage of his proposals that they will be in large part put into effect by the Fed's current Chairman of the Board of Governors, Paul Volcker. Some of us may have a different judgment about that. In any case, the operations of a sound gold standard ought to be as far as possible obligatory and automatic, and not be made to depend on the unpredictable personal discretion of any single "manager." The Fed, if it is to be retained, must be given less power and less discretion, not more.

To sum up: Dr. Laffer is to be commended for being among the few to recognize the need for returning to a gold standard, and one of the first to offer a definite, detailed plan. But his proposal suffers from serious shortcomings:

(1) It fails to recognize the need for bringing inflation to a practical halt *before* any provisions for gold conversion of the currency are put into effect. We do not want to restore the state of affairs—inflation with ostensible convertibility—that existed between 1968 and 1971.

(2) It would establish a premature and probably unworkable conversion rate between gold and the paper dollar and so bring about a serious inflation or deflation. It would be better for the government to mint coins of a round (preferably metric) weight, and let them circulate at whatever exchange value the market establishes. This might temporarily set up a dual "price level," but that would not prove a serious problem.

(3) Under a re-established fractional gold standard the long-run tendency, as in the past, would continue to be a slow expansion of the money supply and a consequent steady attenuation of the gold "backing" measured as a fraction.

(4) It would be a mistake to build in rules for automatic suspension of gold convertibility whenever certain reserve limits were passed. The existence of the rules might then touch off gold runs whenever the limits were being approached.

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(5) There are reasons for fearing that the Laffer plan would bring not merely a fractional gold standard, but a return to the gold-exchange or dollar standard that existed from 1946 to 1971. This would put disproportionate pressure on the United States to pursue a more cautious monetary policy than other countries. At least some effort should be made to secure a limited international agreement for, say, five key countries—the United States, Great Britain, France, Germany, and Switzerland—to return to the gold standard simultaneously.

(6) Finally, day-to-day policy under a gold standard should not depend on the individual judgment or discretion of any one official, but should rest on established and known principles and should be as far as possible automatic. (But should include no automatic rule for suspension.)

Historically, a gold standard, national or international, has been the only monetary system that has prevented inflation. But we must abide scrupulously by its established rules. This time around, a resumption must not be allowed to fail.

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Congressional Oversights

DONALD LAMBRO

When John Breen, an employee of the Treasury Department's U.S. Savings Bond Division, visited the House Appropriations subcommittee that funds his agency, he hoped the bureaucratic scandal he had kept secret for years would finally be aired and eventually cleaned up by Congress. Surely, he believed, when the subcommittee responsible for monitoring his little agency learned of the waste, mismanagement, abuse, and bureaucratic make-work, it would take action. An investigation would be launched. Hearings would be held. He might be called as the lead witness. Congress would give the agency a rough going over and completely re-evaluate the need for this vestige of the war bonds program in today's economy.

But, alas, nothing of the sort ever happened. When Mr. Breen, a bond sales promotional representative, went to see Tex Gunnels, the chief counsel of the Treasury subcommittee, and told his story, he was told to either take his allegations elsewhere or look for another job.

What Mr. Breen admitted, after years of painful deception, was that he had been lying on his bond sales performance reports because of unrealistic and often nonsensical work quotas set by superiors. Among other things, he recorded promotional sales visits that were never made. He said he had seen corporate executive officers to promote bond sales when, in fact, he hadn't. He recorded that large numbers of workers attended his bond promotion meetings when they were poorly attended. But others did this, too, he said, and more. He charged that the voluminous records of the 450-man agency were to a large degree a tissue of deceptions and distortions.

Unimpressed, Mr. Gunnels suggested that Mr. Breen take his story to the Merit Systems Protection Board, created by Congress to protect whistleblowers. He said the subcommittee had no other choice but to believe top agency officials when they told the panel during annual oversight hearings that the program was in tip top shape and doing a gangbusters job of selling U.S. Savings Bonds.

"We have to take them at their word," Mr. Gunnels told the dejected and frustrated Mr. Breen.

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Fortunately, Mr. Breen had already "gone public" with his story several weeks before with this reporter—which led to my independently confirming that abuses did exist among other employees who chose to keep their identity secret. Mr. Breen's story led to an official investigation by the department's Inspector General, which in turn led to Mr. Breen's resignation in late February. But Tex Gunnel's reaction, accompanied by similarly tepid responses from other oversight subcommittees, stunned the 40-year-old bureaucrat. Unfortunately, they were all too typical of Congress' anemic concern for oversight.

Not only does John Breen's experience accurately illustrate how Congress fails to fulfill its primary function under the Constitution as guardian of the nation's purse strings, but his story in a very real sense reveals what only very few Washington observers have begun to realize. Namely, that Congress as the legislative branch of our government has to a large extent abdicated its role and its responsibilities for monitoring and controlling the vast bureaucracy it has so painstakingly created layer by layer over many decades. Not only does Congress lack the time, the interest, or the desire to regularly conduct its myriad oversight functions, but there is a serious question of whether with all its resources, it has the capacity adequately to survey and control everything under its vast legislative domain.

Unfortunate though this sad state of affairs may be, far more alarming is the fact that so little attention has been focused on it by either our brightest scholars or our finest journalists. Indeed, contemporary literature dealing with the actions of Congress over the past forty years or more is focused almost exclusively upon its legislative creations, great acts, new departments, astounding budgets, and continuing debates over the policies and programs to be implemented by the executive branch. Comparatively little is written about the degree to which Congress fails to look back at what it has wrought to re-evaluate actions and repair mistakes.

To be sure, the news media to a very large degree have fostered the myth that Congress is continually engaged in hard, probing, meticulous oversight of the nation's programs and agencies. Don't we read in our newspapers and see on our television screens the seemingly nonstop congressional hearings which explore every facet of our society, every nook and cranny of the federal bureaucracy? Aren't agencies and programs constantly being screened through the reauthorization and annual appropriations process, in which our law-makers fire tough questions at agency heads

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about what they have been doing with our tax dollars? Isn't this picture presented through the news media a wholly accurate one? Sadly, the answer to this question is an unequivocal no.

Few journalists are willing to admit it, because they make their living covering Congress, but the news media bear much of the blame for covering up this story by insisting on giving the congressional oversight system an image of accountability and action which it does not deserve.

Falling Through the Cracks

When this reporter, as part of an ongoing series of investigative pieces, called the Senate Foreign Relations Committee to get some information about the Foreign Claims Settlement Commission, I found an extraordinary lack of knowledge about the agency's activities as well as an inability to ask why the agency should continue to exist. At the time the agency had thirty employees, plus three commissioners earning $47,500 a year, and an annual budget of only $1 million. Most of its work had been completed, and there were serious questions about its need to continue as an independent commission. But the committee hadn't broached that subject.

"Look," said a top staff official, "we just don't have time to look at agencies like this. We have to invest our energies in much larger subjects like the Panama Canal treaties or SALT II. We have to let agencies like this go by the board."

As I continued my investigation into the federal bureaucracy, I soon discovered that Congress has little time for many of its creations, large and small. In many cases our representatives have simply forgotten about them.

For example, when I wrote about Congress' "forgotten agencies," as I called them, I came across the Minority Business Development Agency, which was created by President Nixon in 1969 as part of his "black capitalism" campaign. What I soon discovered was that no legislative committee in the Senate had responsibility over this $50 million agency—that is, no one had oversight responsibility to ensure the agency performed as Congress intended. Incredible as it seemed at the time, a committee official confessed, "It just fell through the cracks; no one has authorization oversight over MBDA in the Senate."

The error was corrected soon after my discovery, but I wondered at the time how many other agencies, obscure or well

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known, may have either "fallen through the cracks" or perhaps coasted for years under Congress' attitude of benign neglect. A hasty survey of several usually knowledgeable congressional committee aides, in addition to some members of Congress, made it clear to me that they were totally unaware of such forgotten agencies as:

—The Joint Mexican-United States Defense Commission, which was established by President Roosevelt in 1942 to coordinate defense activities against the Nazis. The commission still exists long after Hitler's Third Reich has faded into history.

—The Department of Housing and Urban Development's Office of International Affairs, which spends its time issuing studies and literature about such things as the European influence on American architecture and "New Towns in the Soviet Union."

—The Overseas Private Investment Corporation, created in 1969 to provide insurance and loan guarantees to U.S. investors abroad, which has written billions of dollars' worth of policies, mostly for America's 500 wealthiest corporations and 50 largest banks.

As a veteran Senate investigator said, "Congress doesn't have the time or even the desire to examine tiny agencies like these. We don't have time to even examine the big agencies except only in a very cursory way. This isn't something that a member of Congress would ever admit publicly, but most of the government gets very little attention from Congress. It's too big. It's too complex. To be perfectly frank with you, Congress as an institution has created a monster it can no longer control. In many respects we just go through the motions."

"Sure," he continued, "we hold hearings. We ask questions. We come up with the overall figures for new appropriations and authorizations. But we are no longer in total control of either the agencies' actions or their spending. It's sad to say, but we spend most our time putting out brush fires and chasing the next scandal. We're in charge of watching the store, but there are too many stores to watch."

Nothing better epitomizes what this very candid Senate official is saying than an examination of the scandal that rocked the General Services Administration (GSA), the government's $7 billion-a-year building and supply agency. The exposé of corruption, abuse, waste, and mismanagement—which in dollar terms may be the biggest government scandal ever—was broken by *Washington Post* reporter Ronald Kessler. His startling series led to Senate

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hearings by the Federal Practices subcommittee, then chaired by Senator Lawton Chiles, (D-Fla.). But far more important than the sordid details of the scandal itself was the question of how such a situation—involving corrupt GSA officials—could have existed for so long without Congress' knowledge and response. Why did Congress allow GSA to purchase a quarter of a billion dollars a year in office furniture while government warehouses were bulging with the stuff? Why did Congress allow the GSA to pay two to three times more than "off the shelf" stock would have cost?

The answer, in part, is that Congress didn't know about many of these abuses, and what's worse, made no effort to find out.

GSA, long the proverbial dumping ground for political hacks, had rarely—if ever—been examined or seriously probed by lawmakers during the 1960s or early 1970s. Members were far more interested in GSA plans to construct or lease a building in their state or district than they were in what was going on behind the gray walls of the old Interior Department building where the Tea Pot Dome Scandal was hatched.

Yet, if members of Congress could rightly express ignorance over outright corruption at GSA, how could they plead ignorance about the waste, abuse, and mismanagement in its purchasing programs? Why didn't Congress know about these things sooner? Lawton Chiles asked Comptroller General Elmer Staats of the General Accounting Office (GAO).

Mr. Staats, a distinguished, white-haired gentleman who looks more like a diplomat than Congress' chief auditor, must have found it difficult to disguise his incredulity. "Senator," he quietly replied, "over the last six years GAO has provided Congress with over 200 reports on GSA, which have detailed the kind of waste, mismanagement, and abuse we are hearing about today."

The question, then, is why didn't Congress heed GAO's reports? Why had they ignored the work of their own $243 million-a-year auditing arm?

Unfortunately, much of the very excellent work that GAO puts out is ignored by Congress. In the words of a House committee staffer, "Very few members read their reports. All too often they are used to come up with some sexy revelation for a good press release to the papers back home. Their recommendations for saving money are not being heeded by the oversight committees. For all the money we put into GAO, and the worthwhile investigative work they do, I'm afraid Congress just doesn't put the agency to good use."

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The Least Glamorous Branch

How is it possible that the Congress—with a budget of nearly $1.5 billion a year, over 18,000 employees, and more than 317 committees and subcommittees—performs so poorly?

Part of the problem is that the members themselves have so little interest in the task of oversight, even though it is Congress' primary responsibility to the nation. Attend any committee or subcommittee oversight hearing on any given day and you will find they are very poorly attended. The chairman will be there, perhaps the ranking minority member, and sometimes one or two others will drift into the hearing room, ask a few questions and then leave. The exception to this is when the hearing generates enough interest or is sensational enough to lure the television cameras and a flock of reporters into the committee's chambers. Then the members, dressed appropriately in blue shirts, will arrive early and stay late in order to have their chance for exposure on the TV screens.

All too frequently members are not interested in questioning agencies about how they have been spending their resources, asking why we need some of these programs in the first place, or making agency officials justify their regulations or expenditures, a House Agriculture Committee staffer explained. "It's tedious, dull, time-consuming work and these guys have no appetite for it. Very often questions are simply submitted in writing and the answers are placed in the record weeks later, but no one ever bothers to read them."

There are almost 1,200 people who staff the Senate's 129 committees and subcommittees, and nearly 2,000 professionals staff the 188 committees in the House. In the recent 96th Congress, law-makers passed more than 1,300 pieces of legislation. Thousands of other bills written by committee employees never made it out of committee, let alone to final passage by Congress. But an examination of the work of the committees and subcommittees suggests that many of these panels do little substantive oversight work beyond giving a member a chairmanship, some additional staffing, and of course some prestige.

It isn't just that many committees spend their time dealing with trivial matters, such as the hearing last May on a bill to regulate the flow of pedestrian traffic through the Capitol (held by the House subcommittee on libraries and memorials). But very often many of them do little or nothing at all, except provide patronage

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and a means by which members and their aides can finance their travel.

Last year the House Interior and Insular Affairs' subcommittee on Pacific Affairs held three hearings but passed no legislation. The panel issued one report, financed one trip to the Pacific by its members, and sponsored seven staff trips.

The Senate Judiciary Committee's Limitations and Contracted and Delegated Authority subcommittee, with a staff of eight, issued no legislation and held only eleven days of hearings last year.

The Senate Foreign Relations Committee's European Affairs subcommittee, despite enormously important political developments on the European continent, "has not acted on legislation for years," according to a spokesman, and "rarely meets." It last held hearings in 1979 on NATO and SALT.

The Senate Finance Committee's Tourism and Sugar subcommittee "never met" and "didn't hold any hearings last year," a spokesman said. Similarly, the committee's oversight subcommittee on the Internal Revenue Service, "didn't do much" nor did it "issue anything" in the way of reports or legislation last year. In the past two years the committee's Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems subcommittee held only four days of hearings and issued only two reports.

Meanwhile, the Senate Select Committee on Small Business' subcommittee on governmental regulations and paperwork "reviewed no bills last year," even though both problems have seriously burdened the private sector and contributed significantly to inflation and declining productivity.

Over the last two years the House District of Columbia subcommittee on metropolitan affairs "reviewed" three bills and held just eleven days of hearings. The last bill it reported out was in 1979.

Similarly, the House Veterans Affairs subcommittee on housing held only four days of hearings over the last two years and acted on four bills. The entire Veterans Committee acted on only six bills during this two-year period.

The Iron Triangle

Over the last decade there has been an explosive growth in the number of subcommittees in Congress, largely to provide more members with their own chairmanships and personal staffs to do with as they please. Thus, instead of expanding the staffs of the major authorizing oversight committees to reflect the growth and

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complexity in the agencies and their programs, a panoply of esoteric subcommittee titles—some so vague they have allowed their chairmen to investigate virtually anything under the sun—were created. According to Michael J. Malbin, of the American Enterprise Institute, the personal staffs as well as the committee staffs in the Senate have increased by 50 percent since the late 1970s, and they have virtually doubled since the late 1960s. But has this improved Congress' oversight role? The all too abundant evidence suggests strongly that it has not.

Clearly Congress doesn't do as good a job as it should, and one veteran Senate Appropriations Committee staffer pointed out some structural reasons why this is so:

> First of all the authorizing committees tend to become advocates for the programs they are authorizing. If it's the Banking Committee, it's the homebuilders. If it's the Labor and Human Resources Committee, it may be the labor unions or the cities looking for more welfare money.
>
> In other words, these special interest groups want more funds to deal with their problems, and the authorizing committees are concerned only with deciding how much more money do they need to deal with it. It's a little unusual for them to then go back and decide that the money is not being well spent. They are usually trying to find new ways to spend money, not ways to control expenditures.

Those staffers who agreed to talk candidly (though without attribution) about congressional oversight were in general agreement that Congress overall is doing a poor job, with some exceptions. The House Government Operations Committee and the Senate Governmental Affairs Committee were most consistently singled out, because of their special investigative mandate, as performing the best job of oversight, but some said that even these committees were "not as aggressive as they could be" in reviewing government agencies.

Ironically, the House and Senate Appropriations Committees have, to a large extent, taken on more of the oversight responsibilities than the legislative committees who created the programs in the first place. Yet all too often the appropriations subcommittees are ill equipped to thoroughly comb through the agencies and programs they are funding and evaluate how well or how poorly they are performing. Moreover, they are unable to reform the mechanisms of the programs, since this authority and responsibility belongs only to the authorizing committees.

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Appropriation by Lottery

Perhaps the best example of the totally inadequate and pitifully weak oversight efforts of Congress can be found in the Senate Appropriations subcommittee on Housing and Urban Development and independent agencies, chaired in the last Congress by William Proxmire (D-Wis.). In addition to HUD, a $10-billion department, Senator Proxmire had jurisdiction over the Veterans Administration, the National Aeronautics and Space Administration, the National Science Foundation, and more than a dozen other agencies. Each year his subcommittee held hearings on between $75 and $80 billion in programs. To examine all of their budget requests, review all of their programs, conduct investigations, and prepare questions for each of the agencies, Senator Proxmire had a total staff of two people.

It should be noted that perhaps among all of his colleagues no one does a more thorough job of questioning agency heads about their expenditures than Senator Proxmire. His cross-examinations of National Science Foundation officials are minor classics in bewilderment at some of NSF's often wasteful spending practices. Nonetheless, only the most cursory examination of the agencies under his review could have ever been made, or was made, despite the heroic efforts of his two subcommittee aides.

Attending an Appropriations Committee "markup" of its funding bill is a case study in how not to run a railroad. There is little time to weigh and evaluate thoroughly each proposed budget for every agency or department. Members wander in and out midway through consideration of specific spending requests. Many law-makers are more concerned with protecting (in other words, expanding) the budgets of agencies under their respective subcommittees. All too often members are voting billions of dollars for programs when they haven't the slightest idea where the money goes, or whether or not its expenditure is accomplishing the objectives Congress set out to achieve. Often figures are arbitrarily tossed out by members, with little idea as to whether the agency or program should even be funded at all, let alone have its budget raised.

A case in point concerns an incident in which the committee was discussing a minor foreign aid appropriation of about $20 million for a loan program. As a Senate aide described it, "Suddenly Proxmire asked what this outfit did. And nobody in the room knew. And he said, then why are we giving them this money? And somebody said, well, that's what they asked for. So,

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Proxmire asked what they got last year. And somebody said about $17 million. Proxmire replied, well, do they need $20 million? And nobody responded. Then somebody suggested cutting their request to $15 million. And someone else proposed cutting them to $12 million. No one in the room objected. So they got $12 million. But the point is that nobody in the room had any idea what the money was really going for."

The Power of Staff

And because most of the reauthorization and appropriation bills involve tens of billions of dollars, members of Congress often do not have the slightest idea of where the money they are voting to be spent is specifically going. "There is an appalling amount of ignorance among members of Congress about the programs over which they are asked to conduct oversight," complained a Commerce Committee staffer. "We write their questions, draw up their legislation, and author their amendments. With the exception of the chairman and the ranking minority member, very few of the others (members) play much of a role in the committee's actual work."

A Senate Judiciary Committee aide noted that Sen. Edward M. Kennedy (D-Mass.), who chaired Judiciary in the last Congress, had "close to 100 staff members on the committee. But I don't think that more than one or two of them had much of an idea of what goes on in the Justice Department."

What were the other staffers doing? "Writing legislation for more programs, or doing investigations on the oil companies, any number of things, including a lot of work that provided Kennedy with information for his presidential campaign. But whatever they were doing, it did not include very much oversight of the Justice Department, which is the primary function of the committee."

"Meanwhile," this aide continued, "at the Justice Department, which has 50,000 employees, you've got perhaps 20 divisions or agencies that are being totally neglected in terms of oversight. It includes the Drug Enforcement Administration and the Immigration and Naturalization Service, both of which anybody who knows anything about them will tell you are in absolute shambles. They are virtually incapable of doing their jobs."

"The Justice Department is in many ways the fulcrum of everything that happens in the government," he said. "All of the litigation, all of the cases are done through Justice for the government. They have their finger in everything. And yet what Congress

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knows about what goes on inside the department is negligible."

The abuses which existed within the FBI for many years illustrate another failure of Congress to exercise consistent and thorough oversight. One Judiciary staffer argued that had Congress been doing its job, instead of giving the FBI a blank check as it did under J. Edgar Hoover, those abuses would never have occurred, or they would have been stopped before they got out of control. Even today there is still relatively little detailed oversight of the FBI's activities.

Scattered among a largely tarnished oversight record are a few bright examples of how Congress has performed its oversight responsibilities well. For example, Senator Kennedy's marathon series of hearings and investigation into airline deregulation under his chairmanship of Judiciary's Administrative Practices subcommittee paved the way for that landmark legislation. The Appropriations Committee's forceful re-examination of the Federal Trade Commission last year forced the FTC to withdraw from several areas of regulation, though they never questioned the overall effectiveness of the agency itself in accomplishing its mandate. But these examples are the exception. And very often, in these cases as in others, Congress was reacting to the drumbeat of criticism from the private sector.

Yet the consensus among committee aides and staff directors I talked to is that Congress is doing an often abysmal job of oversight. And the evidence, they suggest, is strewn across the bureaucratic landscape for all to see.

Take, for example, the Law Enforcement Assistance Administration, which despite the expenditure of billions of dollars, has failed to curb crime, and has in recent years become a virtual joke in the cloakrooms of Congress. Congress has sharply reduced its funding, but a massive bureaucracy remains in place. "As far as I know the Judiciary Committee, which has jurisdiction over it, hasn't held a hearing at all on what LEAA is doing," said a committee official.

Dozens of other agencies remain as mute monuments to congressional inattention or disinterest. The Consumer Product Safety Commission, which in the last Congress came within an eyelash of being abolished, barely clings to life. The Small Business Administration, which has a sordid history of fraud, abuse, mismanagement, and confusion, is threatened almost annually with dissolution by some congressional leader, but Congress cannot bring itself to pull the plug. The Labor Department's Com-

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prehensive Employment and Training Act (CETA) has been plagued by fraud, political favoritism in the granting of jobs, and other scandals. The Community Services Administration's existence has been one long unbroken string of scandals. No one argues any longer that it has helped the poor it was created to serve, yet few are willing to suggest that CSA should be abolished. The Department of Energy is spending $8 to $9 billion a year on contracts for—for what? Most members of Congress couldn't tell you.

Among the aides I interviewed, no one could recall the last time Congress had thoroughly re-examined such venerable departments as Agriculture, Labor, Commerce, HUD, and HHS from the ground up. "These are departments that haven't been scrutinized in years," said an aide to a southern senator. "You've got programs in Agriculture that haven't been seriously questioned in decades."

A Senate committee investigator, who has worked on oversight on both sides of the Capitol, put it even more bluntly:

> There is more fraud, waste, and mismanagement and just plain extravagant and frivolous spending out there in the departments and agencies than anyone in or out of Congress fully realizes. The Labor Department has more skeletons in its closet than any of them. There are reports locked away down there that deal with CETA fraud, labor union corruption, and much more, which have never seen the light of day. One of the greatest oversight crimes in the Congress was the (Labor Committee) chairmanship of (Senator Harrison) Pete Williams of New Jersey, who never held a substantive hearing on the involvement of organized crime in the labor unions.
>
> There are internal audits buried at HUD, the National Institutes of Health, the Community Services Administration, SBA, GSA, and many others just waiting for someone in authority in Congress, someone with guts and backbone, to make them public and hold investigative hearings on these programs.

Can It Work?

While all of this represents a monumental failure on the part of Congress as the pivotal branch of our national government, it also poses an extraordinary opportunity for change. The question that confronts us now is what can be done to reform the process and repair the damage.

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Not long before she left Congress to pursue a career in education, Rep. Barbara Jordan of Texas told me she did not believe the country needed "any more new programs or new laws." Instead, she said, "the challenge before the Congress is to make the programs we already have work." That is a large order but not an impossible one. There are a number of reforms that can be made to achieve it.

First, Congress should declare a three-year moratorium on any new legislation, except in cases of national emergency.

Such a declaration of purpose must be accompanied by a clear directive to begin a thorough reassessment and evaluation of every expenditure within the federal government. Every program would have to undergo a reauthorization during this period or otherwise go out of business.

Second, the committee system must be completely restructured for a 36-month examination of every department, agency, commission, and program in the government—from the Interstate Commerce Commission to the Department of Education. Such a restructuring would require consolidating and simplifying the tangled mess of committees and subcommittees in Congress to reflect each of the major Cabinet departments and all of the independent agencies.

Third, auditors within each of the departments and agencies would be detailed during this moratorium to the appropriate committees dealing with their programs. Every internal audit and report dealing with each agency's operation would be made available to each respective committee.

Fourth, GAO auditors now assigned to each department and agency would be reassigned to work with their respective committees in a comprehensive review of each program. Such a review would include a thorough reconsideration of every money-saving, bureaucracy-trimming recommendation made by GAO over the past ten years.

Wherever possible, the House and Senate should conduct joint hearings and investigations in the interest of saving time and resources.

And finally, on the basis of each set of findings covering each organized unit of government, a reauthorization bill would be promptly reported to both houses of Congress for action—calling for the agency or program's reform, merger, reduction, or elimination.

This, admittedly, is a large order, and obviously a revolutionary one for Congress. But it is one that would receive the over-

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whelming endorsement of the American people. For Congress would be setting about the business of putting the nation's government in order. Currently it is very much in disarray and disorder.

Earlier this year a group of congressional committee aides who worked on various transition team reports for President Reagan wondered aloud why Congress could not do precisely what they had done: That is, take a fresh look at each program, evaluate its mandate and its track record, and determine whether or not that program should be restructured or abolished.

"When you think of the resources that Congress has, the thousands of staff people, they could do what we did," one transition official said. "But Congress could do it much more effectively and thoroughly, because they've got the subpoena power, the authority to have hearings under oath, and, of course, all of its manpower resources."

Still, in the end, Congress must itself decide whether it wants to spend the time doing something "which isn't very glamorous, and which involves a lot of hard, tedious, detailed work," as one House Appropriations Committee aide put it. And contrary to the conventional wisdom, the political rewards for such an undertaking could be very great indeed. For the party that takes up the banner of oversight and runs with it, is the party that is going to dominate Congress and our government for many years to come.

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Globaloney 2000

HERMAN KAHN AND ERNEST SCHNEIDER

In July 1980, the White House issued *The Global 2000 Report to the President*. Its basic conclusions could hardly be more stark:

> If present trends continue, the world in 2000 will be more crowded, more polluted, less stable ecologically, and more vulnerable to disruption than the world we live in now. Serious stresses involving population, resources, and environment are clearly visible ahead. . . Barring revolutionary advances in technology, life for most people on earth will be more precarious in 2000 than it is now. . . unless the nations of the world act decisively to alter current trends.

In short, unless we change our wicked ways, disaster lies ahead. This clarion call is not new. A decade ago, the same alarm was sounded even more shrilly, dogmatically, and dramatically by the Club of Rome, a group of distinguished industrialists and scientists who sponsored one of the most influential books of our time, *The Limits to Growth.*[1] Their message was simple: if economic growth and population growth are not drastically curbed, the world will collapse within the next century. This time the message was very similar, but its purveyor was President Carter, backed by the authority of the United States government.

Global 2000 was prepared by the State Department and the Council on Environmental Quality in response to a request made by the President in 1977; Council Chairman Gus Speth and Assistant Secretary of State Thomas Pickering put the study together. Their two agencies were aided by the Departments of Agriculture, Energy, and Interior, the Agency for International Development, the CIA, the EPA, the Federal Emergency Management Agency, NASA, the National Science Foundation, the National Oceanic and Atmospheric Administration, and the Office of Science and Technology Policy. Who could doubt that these sober and responsible outfits know what they are doing?

Indeed, compared to the Club of Rome report, Global 2000

1. Meadows, Meadows, Randers and Behrens, (New York: Universe Books, 1972).

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seems rather moderate; it is certainly more carefully worded. Although, in our view, both studies are simply disgraceful, Global 2000 is far more reprehensible. Its authors seem oblivious to the intensive criticism to which *The Limits to Growth* has been subjected during the past eight years. Many of its more alarming arguments had already been largely discredited among most people who deal professionally with these rather abstruse matters, and other arguments need caveats or elaboration. More importantly, the U.S. government has a fiduciary role which cannot be attributed to the Club of Rome. As the designated servant of the American people, the executive branch has a serious obligation to do accurate work, and a clear responsibility for the policy implications of its research. By contrast, the Club of Rome is a purely private venture; while the Club should not behave irresponsibly, it certainly enjoys more freedom than the Washington establishment which produced Global 2000.

Before Global 2000 was even completed, President Carter had discussed its conclusions with other world leaders at an economic summit held in Italy. Immediately upon receiving the report, he established a Task Force to ensure that priority attention would be devoted to the problems signalled by the report. The Task Force was led by Mr. Speth; it included the Secretary of State, the OMB Director, the President's Assistant for Domestic Affairs, and the Director of the Office of Science and Technology Policy. The group's report was submitted to President Carter a few days before Ronald Reagan was inaugurated. In addition, the outgoing President told the State Department to arrange an international meeting of environmental and economic experts in Washington in 1981 to discuss the interrelated questions of population, natural resources, environment, and economic development, which are the focal point of the report. Meanwhile, Secretary of State Edmund Muskie used Global 2000 as the centerpiece for an address to the UN General Assembly, and the Joint Economic Committee of Congress launched a series of hearings on the report; by October a subunit of the Committee had issued a report on Global 2000 titled *Averting Catastrophe;* a UNESCO General Conference held in Belgrade last October also discussed related issues. Finally, in his farewell address to the nation, President Carter singled out the kind of concerns which Global 2000 addresses as one of the three most important problems facing the American people (the other two being arms control and human rights):

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> The shadows that fall across the future are cast not only by the kinds of weapons we've built but by the kind of world we will either nourish or neglect. There are real and growing dangers to our simple and our most precious possessions: the air we breathe, the water we drink, and the land which sustains us. The rapid depletion of irreplaceable minerals, the erosion of topsoil, the destruction of beauty, the blight of pollution, the demands of increasing billions of people all combine to create problems which are easy to observe and predict, but difficult to resolve. If we do not act, the world of the year 2000 will be much less able to sustain life than it is now.[2]

The U.S. government has been actively promoting the report at home and abroad. Seventeen thousand copies had been distributed by early September, more were being printed, and summaries were being prepared in French and Spanish. An advertisement for a German version of Global 2000 which appeared in West Germany's most popular news magazine proclaimed:

> The new official environmental study: the oceans polluted, acid rain, drinking water running out, air becoming scarce.[3]

The response to Global 2000 by the media has been almost uniformly favorable; hardly a note of caution was heard, even from such presumably responsible sources as the World Future Society and the American Association for the Advancement of Science.[4] *Time* and *Newsweek* both gave prominent attention to the report, and *Time* commented that, compared to *Limits to Growth*, Global 2000 is "certainly restrained," even muted. *The Washington Post* observed that "the report's projections clearly err on the side of optimism."

Thus, as far as published comment is concerned, Global 2000 has been almost universally accepted at face value, and accorded great respect. Mr. Speth correctly described response to the report as "overwhelmingly positive," and added that those few who were concerned that the report would be counterproductive have been "proven wrong."

These rave reviews have their own consequences: the prevail-

2. *The New York Times*, January 15, 1981.
3. There is no indication that the ad was officially sponsored.
4. The only exception known to us is Julian Simon, "Global Confusion 1980: A Hard Look at the Global 2000 Report," *The Public Interest* (Winter 1981). His article appeared just as this article was being completed.

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ing pessimism of our society has been powerfully reinforced. To quote Representative Henry Reuss of Wisconsin, co-chairman of a Joint Economic Committee subcommittee, the report

> documents a world a bare 20 years from now that is desolate and dying, the result of the past, present, and prospective follies of its people.

As it happens, we recently participated in a series of briefings for freshman congressmen. We learned that, with some exceptions, congressmen had not been particularly affected by Global 2000; many were not even aware of its existence. However, many members of their staffs knew a great deal about it. And the real importance of this document lies in its impact upon people who are professionally concerned with environmental issues. In addition to government officials, this includes many college professors and public school teachers who are eager to exploit any respectable material which tends to support their pessimistic attitudes toward the U.S. economic and political system. Global 2000 is tailor-made for this kind of exploitation.

President Carter's Task Force asked some 600 experts, constituency group leaders, and business leaders how the government can enhance its capability to work with the private sector to address these problems more effectively. At hearings on Global 2000, Representative Reuss asked rhetorically whether the world could not do a better job of averting "Apocalypse 2000" if the "insane arms race" were stopped. He added, "We've got a great thing here; let's not louse it up." In response to urging from Senator Russell Long of Louisiana, Assistant Secretary of State Pickering observed that a consortium of foundations and other private bodies might deal with the issues raised by Global 2000.

Novus Ordo Seclorum

The Carter administration would obviously have liked to see Global 2000 become the centerpiece of a vast effort to save mankind. Of course, President Carter's mandate for such an effort has run out.

And why should the Global 2000 report not enjoy this status? Because it is biased, misleading, and sometimes plain wrong.

The bias of Global 2000 is toward pessimism on practically every issue; a pervasive tendency always to see every glass as half empty rather than half full, and to consider some which are two-thirds full to be two-thirds empty.

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At the outset, Global 2000 asserts that "Despite great material output, the world's people will be poorer *in many ways* than they are today." (Emphasis ours) The reader is expected to understand that, although almost every country will technically have a higher real GNP per capita, something else, presumably quality, will suffer as time goes by—and that this is more important than mere quantity. We agree that quality is always important; indeed, a sufficient decline in quality can negate any increase in quantity. But many complaints about the quality of life today turn out to have more to do with the perceptions and misperceptions of the middle class in Western culture than with the welfare of most people in these societies. Thus as mass consumption societies develop and expand, the way of life of the upper middle class often declines in certain respects (for example, the disappearance of servants, crowded resorts, and less easy access to prestigious universities). Global 2000 seems to be projecting this problem on other countries as well as on other classes within this country.

Although the study projects a 90 percent increase in world food production from 1970 to 2000, and a per capita increase of "less than 15 percent," it adds that per capita consumption in South Asia, the Middle East, and the less developed countries (LDCs) of Africa "will scarcely improve or will actually decline below present inadequate levels." In our view, about 300 million people now live in countries which are desperately poor and unlikely to improve much in the next decade or two. Examples are Bangladesh, the Sahel of Africa, Haiti, and Bolivia. About 700 million additional people live in what we call "coping" poor countries: such nations are not doing badly as a whole, but many of their citizens are very poor; India, northeastern Brazil, and the peasantry of Mexico are examples. As the world's population grows from the current 4.3 billion and levels out around 10 billion in the middle of the twenty-first century, about a billion people will almost surely still be very badly off. These problems are both very important and very difficult to deal with. But they will have little relevance for the great majority of the world's population.

Nowhere is Global 2000's pessimistic bias more blatant than in its preoccupation with the so-called gap between the rich and poor people of the world—although this is a conventional sin. The concept is painfully simple. Since some people are richer than other people, a gap divides them. If both groups are becoming richer, the best way to distract attention from this agreeable prospect is to focus on something else, especially if it stimulates guilt feelings in

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the likely consumer of the information. Following this formula, Global 2000 tells us:

> The present income disparities between the wealthiest and poorest nations are projected to widen. Assuming that present trends continue...industrial countries will have a per capita GNP of nearly $8,500 (in 1975 dollars) in 2000...By contrast, per capita GNP in the LDCs will average less than $600....

Only by consulting a statistical table in Global 2000 can the reader learn that GNP per capita is projected to rise from $382 for the LDCs in 1975 to $587 in 2000, an increase of over 50 percent in two decades.

After these and other doses of pessimism, the report disarmingly admits that it may not be objective; we are told that the methods available for carrying out the study "tend to impart an optimistic bias." At least we have been warned.

The Authors and Their Biases

Dr. Gerald O. Barney, the director of the study, states in Global 2000 that two groups of expert advisors actively participated in preparing the report. Listed among an inner circle of seven such experts are Mihaljo Mesarovic, Anne Ehrlich, and Kenneth E. F. Watt.[5] All three are closely identified with opposition to growth. Mrs. Ehrlich and her husband Paul (who wrote *The Population Bomb*) are leaders of the Zero Population Growth movement in this country; in 1974 they published a book called *The End of Affluence*; Mr. Mesarovic was co-author of the Club of Rome's second study of "the human predicament"; Mr. Watt added another volume to the literature of doom by publishing a book in 1974 on the "titanic effect"; his definition of this concept epitomizes the strategy of wolf-crying:

> the magnitude of disasters decreases to the extent that people believe that they are possible and plan to prevent their effect.

5. The other four are Anne Carter of Brandeis University, Nicholas Carter of the World Bank, Peter Henriot of the Center of Concern, and Douglas N. Ross of the Joint Economic Committee of the U:S. Congress. While their attitudes toward growth are not known to us, the two Carters are professional and respected economists who specialize in the kind of complex and detailed quantitative models which we find most misleading. According to the *Encyclopedia of Associations*, the Center of Concern is devoted to human rights and, *inter alia*, "calls for a more equitable sharing of material resources." This is doubtless a worthy aim, but it suggests that its members would approach any study like Global 2000 with preconceived goals.

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The second advisory group consisted of some 134 individuals. Among then are Dennis and Donella Meadows, two of the authors of *The Limits to Growth*, and their acknowledged mentor, Professor Jay Forrester of MIT. The organizations identified with many of these individuals read like an honor role of certified opponents of the kind of economic growth that most Americans support; among them are: the Natural Resources Defense Council, the Population Reference Bureau, the Rachel Carson Trust, the Friends of the Earth, WorldWatch Institute, the Canadian Association for the Club of Rome, the World Population Society, Environmental Action, the Environmental Fund, the Population Crisis Committee, the National Wildlife Federation, the American Conservation Association, the U.S. Association for the Club of Rome, the World Wildlife Foundation, Zero Population Growth, the Massachusetts Audubon Society, Nature Conservancy, the National Parks and Conservation Association, and the Population Council.[6] While such groups should be consulted in preparing a study of this kind, who can doubt that they are strongly inclined to put their concept of adequate environmental protection ahead of almost all other goals?

Global 2000 asserts that its conclusions were reinforced by those of similar studies which it examined; it claims that

> all these studies are in general agreement on the nature of the problems and on the threats they pose to the future welfare of mankind. The available evidence leaves no doubt that the world—including this Nation (sic)—faces enormous, urgent, and complex problems in the decades immediately ahead.

No one argues that the world does not face "enormous, urgent, and complex problems," but do all the studies really agree on the nature of these problems?

Global 2000 compared the government's several models to five other global studies:

(1) "Worlds 2 and 3," both commissioned by the Club of Rome; the latter model was the basis for *The Limits to Growth.*

(2) The Mesarovic-Pestel World Model, also commissioned by the Club of Rome; both authors are Club of Rome members.

(3) MOIRA [Model of International Relations in Agriculture] also commissioned by the Club of Rome; according to Global

6. The list is not totally one-sided. It includes individuals affiliated with such institutions as A.T.&T., First National City Bank, and the American Petroleum Institute. However, organizations of this kind are outnumbered by at least 5 to 1; furthermore, this minority apparently wielded little influence.

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2000, "the modelers were motivated by the sentiment that human suffering is morally wrong and by a desire to minimize world hunger." While few could dissent, we would argue that objectivity and realism are far better motivations for policy researchers.

(4) The Latin American World Model; although this study was also inspired by the Club of Rome, it was, according to Global 2000 designed to address the question "How can the resources of the world be used most effectively to improve the lots of all people?"; thus "it is almost the antithesis of what the Global 2000 study is seeking. Rather than dealing with the problems of resources and environment, the modelers began with an assumption of no problems—particularly no serious resource problems. Their analysis much resembles that presented by Herman Kahn in *The Next 200 Years*."[7] The Latin American study concluded that "the fate of man does not depend, in the last instance, on insurmountable physical barriers, but on social and political factors that man must modify."

(5) The UN World Model; this study, led by the Nobel Laureate Wassily Leontieff, was published in 1977. Among its conclusions:

> Known world resources of metallic minerals and fossil fuels are generally sufficient to supply world requirements through the remaining decades of this century. . . mineral resource endowment is generally adequate to support world economic development at relatively high rates, but. . . these resources will most probably become more expensive to extract as the century moves toward its conclusion.[8]

7. This book (H. Kahn, W. Brown, L. Martel; New York: Morrow, 1976) did not assume that the world faces no environmental or resource problems. On the contrary, it explicitly argued that mankind faces two kinds of "issues," of which eight are basically "solvable," and eight are basically "uncertain"; among the latter are "possible damage to earth because of complicated, complex, and subtle ecological and environmental effects." The authors attempted to match resources against probable needs, and found few serious problems—if proper investments are carried out. In general, many problems which now preoccupy elites in affluent societies can be solved by relying on business-as-usual methods—many serious problems are likely to arise in the future, but those signalled by Global 2000 are not likely to be very prominent among them. The authors of Global 2000 are not Cassandras. It was Cassandra's fate to warn of real problems and not be believed. The fate of Global 2000 is to warn of mostly unreal problems and to be mostly believed. One reason for Cassandras is that the public is confused by false signals and incorrect analyses.

8. *The Future of the World Economy* (New York: Oxford University Press, 1977), p. 6.

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Thus, it turns out that, rather than uniformly agreeing with Global 2000, three of these models share its ideological bias, and two seem to dissent from its conclusions.

Manipulating the Evidence: Population

As for being misleading or wrong, let's look first at population, perhaps the single most important topic for studies of this kind. The report first asserts that rapid world population growth will "hardly have altered" by 2000, adding that the world's population will reach 6.35 billion by 2000, a 50 percent increase over 1975; the growth rate is projected to drop from 1.8 percent per year in 1975 to 1.7 in 2000.[9] The report adds that "if the fertility and mortality rates projected for 2000 were to continue unchanged into the twenty-first century, the world's population would reach 10 billion by 2030 and nearly 30 billion before the end of the twenty-first century."

While this latter assertion could be interpreted as arising out of the available data, it clearly misrepresents conventional demographic wisdom; this includes the estimates of the Census Bureau. The best current data indicate that, after reaching a peak rate of about 2.1 percent in the mid-sixties, the world population growth rate declined sharply to 1.6 to 1.7 percent; this represents a 20 percent drop. These estimates are, by definition, uncertain; however, they are accepted by most of the world's demographers.[10] The overall world rate will almost surely continue to decline, certainly in the time period to which Global 2000 addresses itself. By assuming the opposite, Global 2000 seems to be engaging in de-

9. Donald Bogue and Amy Tsui argue in "Zero World Population Growth?" (*The Public Interest,* Spring 1979) that "population in the year 2000 will be as much as 250 million less than the lowest of the current predictions, and 700 million less than anticipated by the U.S. Census Bureau and the United Nations." They project a world total between 5.7 and 5.9 billion people in 2000, and conclude that by then "the world will have largely brought the problem of high population growth under control."

10. The most recent annual report of the UN Fund for Population Activities found, according to *The New York Times* of June 15, 1980, that "By the end of the century, the pace of (world) population growth is expected to fall by 20 percent." The World Fertility Survey, covering 400,000 women in 61 countries, has concluded that birth rates in Third World countries and developed nations diminished significantly during the 1970s (*The New York Times,* July 15, 1980, C1). Bogue and Tsui (*see* footnote 9) report that 81 percent of the earth's inhabitants live in nations which experienced population decline between 1968 and 1975; furthermore, they found that the nations with higher birth rates in 1968 tended to experience the largest fertility reductions.

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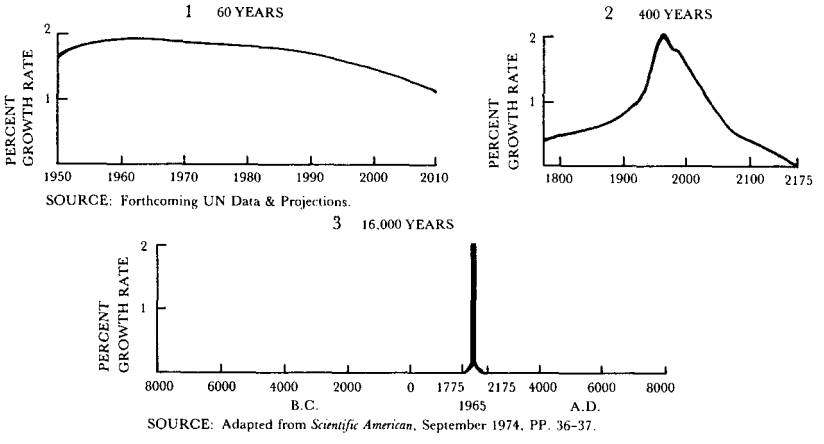
liberate scare tactics. The recent sharp decline seems likely to continue, reaching about 1.4 percent by the end of the century. Thus, the most important characteristic about the rate of population increase is its rapid rise and even more rapid decline; this should not be thought of as a long, drawn out process.

The misleading nature of excessive preoccupation with recent high rates of world population growth is dramatized by the three graphs shown below:

Three Time Perspectives on World Population Growth



SOURCE: Forthcoming UN Data & Projections.

SOURCE: Adapted from *Scientific American*, September 1974, PP. 36-37.

These three graphs put the whole question of population growth into a meaningful historical perspective. The first focuses on a 60-year period; it indicates that these rates have been rather stable during the past several decades, but are now declining rather rapidly. The second covers a much longer period: 400 years. It illustrates the nature of the current demographic transition. This transition initially resulted from a sharp decline in death rates, followed by a similarly sharp drop in birth rates; this continued until a rough balance was achieved. The third graph, which covers 16,000 years, is of course the most dramatic. It shows that population growth was very slow before the demographic transition, perhaps 0.1 percent; at this rate, total population goes up by a factor of 3 in 1,000 years. The peak is incredibly sharp, only 100 years wide at the one-percent point. In this perspective the current era can be characterized as a "Great Transition" from a world where:

200 years ago almost everywhere human beings were com-

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> paratively few, poor and at the mercy of the forces of nature to one 200 years ahead where, barring bad luck and/or bad management, almost everywhere they will be numerous, rich, and in control of the forces of nature.[11]

If such a transition really occurs, it will certainly cause all sorts of problems and other growing pains; in many ways, it might even be disaster prone. But Global 2000 contains hardly a hint that an exciting and basically constructive process of this kind may lie ahead.

Since the decline in world population growth rates reflects the changes which occur in values and ways of life as most of the world's people gradually become more affluent, this trend is unlikely to change rapidly, if at all, within a decade or two. This basic pattern is unmistakably clear. Poor people tend to have large families, and affluent people small families.

As such diverse countries as the United States, Japan, the U.S.S.R., Brazil, and Mexico have become better off, their fertility rates have all declined. Spectacular decreases in fertility have taken place in China, Sri Lanka, Indonesia, and the Indian states of Kerala and Karnataka in recent years. In 1980, India's population growth rate dropped to 1.9 percent; since India represents one-sixth of the world's population, this is especially encouraging. And, according to Global 2000 itself, China, the world's most populous nation, will grow at an average annual rate of only 1.4 percent during the 1975–2000 period. This estimate was made before the new Chinese program which attempts to restrict Chinese families to one child.

World Needs in Transition

Global 2000 puts much stress on its projection that 79 percent of the world's population in 2000 will be living in less developed countries. Whether this grim sounding prospect has much to do with reality depends, of course, upon how LDC is defined. By any traditional standard—say less than $500 annual per capita GNP in constant dollars—China, Thailand, Egypt, Nigeria, and the Philippines will probably no longer belong in this category by the year 2000. If Global 2000 had adopted the simple device of splitting the developing world into two groups—LDCs and those in transition to affluence—the LDC population in 2000 would be

11. See Kahn, Brown, Martel, *op. cit.*, p. 1; this definition is paraphrased here.

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under 40 percent. On the whole, middle income and poor countries tend to attain faster economic growth than affluent countries; on a per capita basis, the results are about the same for both groups.

In dealing with energy, Global 2000 repeats the familiar litany which is almost certainly misleading:

> During the 1990s, world oil production will approach geological estimates of maximum production capacity, even with rapidly increasing petroleum prices. . . richer industrial nations will be able to command enough oil and other commercial energy supplies to meet their rising demands through 1990, [but] many less developed countries will have increasing difficulties meeting energy needs. For the one-quarter of humankind that depends primarily on wood for fuel, the outlook is bleak. . . While the world's finite fuel resources — coal, oil, oil shale, tar sands, and uranium — are theoretically sufficient for centuries, they are not evenly distributed; they pose difficult economic and environmental problems; and they vary greatly in their amenability to exploitation and use.

The Global 2000 view that no early relief from the world's energy problems is in sight rests largely upon the notion that petroleum production capacity will not increase as rapidly as demand. This outlook is not unusual; it is based upon projections made by the Department of Energy in 1977. But agreement is growing that current high oil prices are rapidly bringing about the needed adjustments. Thus, projections for increased world demand for energy have been scaled down from about 3.5 percent per annum. For example, the U.S. Energy Department recently reduced its estimate of growth in U.S. energy demand to 1 percent annually, the latest in a series of reductions from a forecast of 2.5 percent in 1979.[12]

The important transition now being experienced reflects the world's ability to restructure its economics to produce desirable fuels at tolerable prices, and to adjust demand for those fuels accordingly. No doubt such adjustments will often be more painful to poor people in poor countries than to others, but this is a virtually inevitable result of poverty. By definition, a rich person can command more of the world's goods and services than a poor person; this is why most people prefer more money to less money.

12. *The New York Times,* January 4, 1981, p. 1.

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The solution, of course, is to eradicate poverty. This is happening; slowly and unevenly, but still happening.

In sum, on energy issues, Global 2000 is badly outdated; even when this is not the case, it tends to overstate demand and understate supply, while often ignoring the role of economic forces. In any case, there is little reason to place much credence in official forecasts of this kind; a cursory look at the record shows that they have consistently turned out to be wrong, almost always erring toward pessimism.[13]

Feeding the World

What about food? Global 2000 forecasts that world food production will grow by 2.5 percent per annum during the 1970–2000 period, but projects a 95 percent increase in the real price of food during those years. Food output in LDCs is expected to "barely keep ahead of population growth," and the outlook for improved diets for the poorest people in the poorest LDCs is described as "sobering."

Does this make much sense?

As for real food prices, the world price for wheat and corn in constant dollars was roughly the same in 1977–1979 as it was in 1967–1969, despite sharp increases in 1973–1975. Such fluctuations can recur, and are indeed likely for 1980–1981, due mainly to the U.S. drought and the poor harvest in the Soviet Union. But an inexorable continuing rise in real terms has not occurred, nor is it particularly likely. While food prices in real terms are likely to go up in the immediate future, there is little reason to expect a long-term rise. The application of capital and technology should be able to overcome any tendency toward diminishing marginal returns.

In terms of numbers of people alone, China, India, Pakistan, Bangladesh, and Indonesia lie near the heart of any potential global food problem. These five nations account for 2 billion people today, and will number close to 2.75 billion by 2000. How are they doing?

China's agricultural situation today is not unsatisfactory in the sense that most of China's one billion people seem to be ade-

13. An interesting list contrasting oil prophecies and realities since 1866 appears in *Presidential Energy Program,* Hearings Before the Subcommittee on Energy and Power of the Committee on Interstate and Foreign Commerce, February 17–21, 1975, Serial No. 94-20 (Washington, D.C.: USGPO, 1975), p. 643.

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quately fed. When shortages arise, the government has sufficient foreign exchange to import food from abroad. As for China's prospects, Global 2000 itself projects a 69 percent increase in food production during the 1970–2000 period, and a mere 42 percent increase in population between 1975 and 2000.

Under Indira Gandhi, India has increased food output by giving greater priority to agricultural development, improving incentives to farmers, and relaxing barriers to interstate grain trade. As a result:

(1) India exported 700,000 tons of grain in 1980 (in 1975 she imported 7.5 million tons). India normally produces over 95 percent of her own grain requirements.

(2) Substantial grain reserves have been accumulated.

(3) 7 million additional acres were irrigated in 1978.

In the longer run, India should be well off agriculturally. With twice the arable land per capita of China, India's intensity of fertilizer use is less than half that of China. India has extensive fertile river basins where water management is starting to take hold. And India's earlier emphasis upon industrialization has provided some of the infrastructure which is needed for rapid agricultural development.

Both Pakistan and Bangladesh dramatically improved their grain output in 1980—because of good weather and expanded fertilizer use. Indonesia has experienced two successive record rice harvests—by using more high yielding varieties, by higher fertilizer use, and by suffering less damage from floods and pests. Furthermore, multiple cropping and year-round irrigation are spreading fast in both countries.

In contrast to the hopeful outlook in Asia, the developing countries of the Sahel and Central Africa will probably need food aid on a continuing basis for at least a decade. Fortunately, the populations concerned are relatively small—about 40 million. If the Sudan, Ethiopia, and Somalia are included, the number rises to 120 million—still small compared to India's 670 million and China's one billion. And some faint signs are visible that the same awakening to agricultural technology that has taken place in South Asia is starting to happen in black Africa.[14]

14. Richard Critchfield, a journalist specializing in peasant societies, has observed: "Is there something in the American psyche that feels more comfortable with a (fake) picture of Asian village misery and desperation? Do we really, deep down, *want* to hear bad news? This gap between reality in village Java and its perception in Washington...will not matter in the long run. Realities assert

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This is not to argue that many millions in poor countries do not suffer from malnutrition. Fortunately, however, various technologies could solve or alleviate most of the world's nutritional problems in a few years. Their adoption has often depended upon effective demand, i.e., demand with money behind it. If there is any single cause of world hunger, it is poverty, not a lack of food. Thus, the problem is financial rather than simple production.

The insistence of Global 2000 that the world is headed straight for disaster is intrinsically implausible. Gross World Product and Gross World Product per capita have been growing inexorably almost every year for at least a century. Life expectancy, the best single available indicator of human health and welfare, continues to lengthen almost everywhere, year after year. Pollution levels in the developed world are being reduced;[15] as the rest of the world becomes more affluent, this pattern will probably be repeated. Even more basic, of course, is the peaking of world population growth which occurred in the 1960s. Given these facts, it seems passing strange that the doomsdayism of Global 2000 is playing to rave reviews.

Of course things can go wrong. They often do, and this will surely happen again. But to argue that the whole world is heading straight for disaster within two decades borders on the foolish.

The Lure of Doom

If Global 2000 is so biased toward doom, why did President Carter, a reasonably cheerful and responsible man, embrace its

themselves in time." ("Javanese Village: The View from Below," *Society*, September-October 1980, p. 43.) The idea that the world is more or less permanently short of food has been propagated by prestigious organizations anxious to dramatize the plight of the few by making it appear to be the curse of many. The Food and Agricultural Organization (FAO) is the prime example of this tendency. Its director, Lord Boyd-Orr, claimed in 1950 that two-thirds of the world's people went to bed hungry. It was later shown that Lord Boyd-Orr's successors knew this statement was untrue; it had been based on a simple confusion compounded by inaccurate FAO statistics, but the FAO was loath to soften the impact of this assertion. See Colin Clark, *Starvation or Plenty?* (New York: Taplinger Publishing Company, 1970).

15. For official data on improved U.S. air pollution levels, see Paul Portney, ed., *Current Issues in U.S. Environmental Policy,* published for Resources for the Future (Baltimore: Johns Hopkins University Press, 1978), p. 27, and Walter Rosenbaum, *The Politics of Environmental Concern,* (New York: Praeger, 1977), p. 152. The annual report for 1980 of the Council of Environmental Quality reported that the air in most American cities is becoming cleaner, including those with the dirtiest air (*The New York Times,* January 18, 1981).

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conclusions so eagerly, and why is the world press little more than a claque for its gloomy message?

One motivation behind these apparently mysterious phenomena seems to us more emotional than rational, and rather admirable at that. Who cannot sympathize with the pious wish of the rich and comfortable to help the poor and deprived? For this is what Global 2000 seems to be about; to the extent that this claim has some validity, it is an uncomfortable task to find fault with studies of this kind. But where compassion blooms with such entrepreneurial vigor, can guilt be entirely absent? This perhaps explains the preoccupation of Global 2000 and similar studies[16] with the gap between rich and poor—which has little resonance among the poor. We feel sure that, in reality, the peasants of Bangladesh and the African Sahel are much more interested in self-improvement than they are in the difference between their lives and those of the affluent elites of New York, Dusseldorf, and Tokyo.

> Why does Global 2000 proclaim, with such dismay, that the one-quarter of the world's population that inhabits industrial countries is projected to continue absorbing more than three-fourths of the world's nonfuel mineral production?

It would be odd if this were not the case; the problem of course is to create conditions under which the non-industrialized majority of the world's people can duplicate the high consumption of the industrialized world. But this is hardly the reason why Global 2000 revives this old chestnut. Guilt leads to compassion, and compassion may lead to action, to doing good deeds. Thus the insistent theme in Global 2000 that all is not (yet) lost:

> Prompt and vigorous changes in public policy around the world are needed to avoid or minimize these problems before they become unmanageable.

Crying wolf, then, is the strategy of the do-good establishment which specializes in proclaiming that disaster will strike—unless we follow their advice in a big way right away. Aurelio Peccei, the founder of the Club of Rome, conceded that this was the case when he commented that "the limits to growth report had served its purpose of 'getting the world's attention' focused on the ecological dangers of unplanned and uncontrolled population and industrial expansion."[17] He made this statement in the context of

16. Notably the so-called Brandt report; for critical assessments of that study, *see Encounter,* December 1980, and Peter Day "Beneath Charity: The Brandt Report," *Policy Review,* Summer 1980.

17. *The New York Times,* April 13, 1976.

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abandoning the Club's formerly negative attitude toward the desirability of further economic growth. By contrast, Global 2000 avoids taking a position for or against growth as such; its policy prescriptions are implied rather than stated. In his testimony before the Joint Economic Committee, Mr. Speth asserted that "the conflict between development and environmental protection is largely a myth"; adding that "we don't think that this report holds out a specter of limited or no growth." In this way, those responsible for Global 2000 seemingly want to avoid the onus of advocating limits to economic growth or resource use.

If, indeed, Global 2000 were the basis for U.S. policy over the next decade, what would happen? Solutions to the problems posed by Global 2000 are explored in the report delivered to President Carter by Mr. Speth and Secretary of State Edmund Muskie on the eve of Ronald Reagan's assumption of power. The report's tone is embodied in its title: *Global Future: Time to Act.* Among its recommendations are:

(1) An expansion of U.S. foreign aid by 40 percent over the next five years.

(2) A doubling of U.S. support for family planning.

In addition, the report makes dozens of suggestions for specific actions, many of them calling for the creation of new institutes, centers, task forces, and committees—as well as the expenditure of U.S. funds for such diverse purposes as aid to agriculture in poor countries, a conference on a conservation and management strategy for U.S. fisheries, and expanding efforts to train farmers in water management.[18] In general, *Global Future* is more restrained and reasonable than Global 2000, perhaps because it appears to reflect the thinking of bureaucrats more than the predispositions of professional environmentalists. As for the merits of its proposals, more U.S. foreign aid might be a good idea, but only if it is targeted on countries which need it most, and administered in ways which in fact encourage development rather than stifle it. On the record, this has often not been true. In any case, the affluent nations of the world clearly have a moral obligation to help the poor to improve their lot. To expand support for family planning is very probably desirable, given the strong likelihood that more and more people in developing countries will, for social

18. According to *The Washington Post* of January 15, 1981, Gus Speth estimated that it would cost $1 billion to $1.5 billion annually to implement the recommendations of *Global Future.*

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and economic reasons, wish to limit their progeny, and need access to this information. Except for programs which penalize families for having excess children (for example, Singapore and China), such efforts are usually ineffective as propaganda, but can be very effective in providing information for people who want fewer children.

Some further policy clues are provided by Representative Reuss's report on *Averting Catastrophe.* While most of its recommendations are not policy specific, the report suggests focus on:

(1) The relationship between economic development and the globe's resource base.

(2) Dismantling barriers to the flow of capital and goods internationally.

(3) The links between the arms race and other global problems.

While these goals are, to some extent, unexceptionable, their implications are not entirely harmless. The first certainly suggests that development may deplete scarce resources. Preoccupation with resource shortages may promote conservation, and more conservation is certainly an important aspect of a rational energy policy. But conservation, at least as a rhetorical goal, has hardly been neglected by the Nixon, Ford, and Carter administrations. The trouble is that, unless the price rises enough, rhetorical exhortation and conservation are remarkably ineffective. By now, however, the price has reached levels which really promote both conservation and production.

There is no rational basis for singling out military spending as a possible source of funds to save the world. While arms are certainly non-productive in the economic sense, this is no news. Indeed, it is arguable that no economic growth whatever could occur without the security shield provided by military strength.

But the real point lies elsewhere. Our society pays a heavy cost in terms of low morale when its establishment endorses the notion that our socio-economic system is, in effect, corrupt and evil. If the idea that more economic growth will pollute the environment and rob the world's poor further infiltrates our school system, we should not be surprised that young people prefer the Sierra Club and Nader's Raiders to Exxon and General Motors. The upper middle class youngsters who graduate from our most prestigious colleges generally lack the kind of direct experience with work and hardships of any kind which breeds realism. They tend to be sheltered and idealistic—easy prey to those who deplore industrialism

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and economic growth as vulgar and materialistic. It is precisely the prejudices, guilt feelings, and class interests (conscious and unconscious) of the affluent, the elite, and the privileged which inspire studies like Global 2000.

Since the advent of Global 2000 coincides with the demise of the Carter administration, the new team taking over in Washington should use Mr. Carter's Global 2000 swan song as an opportunity to show the differences between their respective world views in terms of sobriety, realism, and policy orientation. More importantly, a new study could identify problems more serious and pressing than those addressed by Global 2000: perhaps, for example, nuclear proliferation and runaway inflation. After all, Global 2000 arose from a worthy impulse to assess long range problems, and do something about them. If President Reagan decides to give us a more accurate and productive view of the future, he might help to inspire all of us to make a better world.

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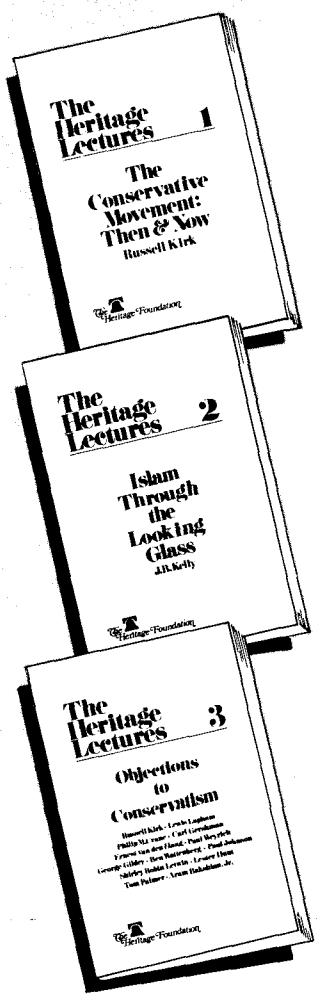

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Tales from the Public Sector

Justice has been re-routed
From present to future tense;
The law is so in love with the law
It's forgotten common sense.

Ogden Nash
The Old Dog Barks Backwards

The Spoils of Regulation

When some sector of the Soviet economy is even less efficient than the notoriously inefficient norm, the first bureaucratic reaction is to find a scapegoat and the second is to create a new Ministry. Last December it was announced that a new U.S.S.R. Ministry for Fruits and Vegetables had been formed and that Nikolai Timofeevich Kozlov, 55, had been appointed to the new ministerial post. The fact that he has spent all his working life dealing with the agricultural problems of Moscow Province, and that Moscow is still desperately short of fresh vegetables, does not seem to have counted against him.

Of course he faces an impossible task, and perhaps his being inured to disappointment was his greatest qualification. The Soviet Union covers such a vast and varied territory that it should be possible to satisfy most demands for fruits and vegetables throughout the year from its own resources. The problem, however, is that operating according to the laws of supply and demand is illegal, and "speculators" who can make huge profits satisfying the population's natural desire to avoid scurvy, can likewise earn huge jail sentences if they are caught.

Customers do have a choice. They can try to buy from the State trade network, where prices are reasonable but quality atrocious. Even the government newspaper *Izvestiya* (December 9, 1980) admits the problem: "Does everything which is grown get to the consumer? And if it does, in what sort of condition is it? Even at the height of the vegetable season customers often left shops with their string bags empty. People would come up, look at the

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squashed tomatoes and wrinkled aubergines and go away...." Their only legal alternative is to go to the peasant market, where surplus produce of the carefully tended family plot is sold at three or four times the State price, but in perfect condition.

Some of the wastage which leads to shortages, especially in the winter months, could be prevented by increasing facilities for preserving agricultural produce. But *Izvestiya* gives an example to illustrate why this is difficult to organize. A State farm near Saratov has produce which cannot all be consumed at harvest time. The Ministry of Agriculture agrees that finance should be provided to construct a food processing plant capable of handling 400-500 tons of vegetables a day, which would otherwise be wasted. However, the funds are controlled by the Ministry of the Food Industry. "And you see, the two Ministries are quite unable to reach an agreement." Specialists reckon that in Saratov Province 45 percent of output should be processed, and the remainder sold fresh; the present proportion being canned and bottled is no higher than 5 percent. Meanwhile the Ministry of Agriculture goes on planning to increase vegetable production, which means—as *Izvestiya* points out—planning an increase in wastage.

While the bureaucrats sit at their desks planning how many tomatoes to feed to cattle or simply plough back into the soil, in the sunny southern republic of Soviet Georgia the blackmarketeers plan their profitable trips flying with suitcases of fruits and vegetables north to frozen Leningrad, where through the long winter months the State shops seem to offer only potatoes, onions, cabbages, and beetroot. Of course the bureaucrats resent having their faults emphasized in this way, and appear to be preparing stronger counter-measures—not to increase vegetable supplies, but to increase the punishments for "speculators."

Such proposals look best if initiated by the masses, and through some strange coincidence the main Communist Party newspaper in Georgia, *Zarya Vostoka* (December 3, 1980) has received letters demanding stricter penalties. Comrade Tarba, describing himself as "veteran of the Great Fatherland War, pensioner" writes angrily: "In my view we are still not tough enough in punishing those who try to take fruit, flowers and vegetables to the northern markets to sell them at fabulous prices... Those for whom the most important thing in life is money, collected by any means, should be hit where it hurts most—in the rubles: confiscate their property, their private car, reduce or simply take away their family plot!"

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Whatever the sanctions, private enterprise is unlikely to be crushed in Georgia. Last winter police discovered 2,300 kilograms of mandarins concealed in the mail van of the Tbilisi-Moscow express. The head of the mail van admitted that he was being paid 140 rubles (more than a month's wages) for this one trip, but he refused to reveal his employer's identity—presumably because he hoped for further profitable business when his prison term was over.

Iain Elliot

Sherlock Holmes and the Invisible Army

It was breakfast time in our lodgings on Baker Street on a particularly foggy morning. I was just applying a wedge of Cooper's Oxford marmalade to my buttered toast when Holmes looked up excitedly from a letter he was reading. By the stamp on the envelope, I knew the letter had come from the United States.

"You will be intrigued to learn, my dear Watson," Holmes said, "that, as a result of your sensational report of that extraordinary case, 'The Mystery of the Vanishing Placemen', (*Daily Telegraph,* January 26, 1976) we have been asked to proceed to Washington to help with inquiries into a similar case there, though we are asked to go as secretly as possible."

It appeared from the letter that some very highly placed persons were exercised about a scandal which was only just emerging, but which from first indications was on a vastly larger scale than our own.

I took down the file on "The Vanishing Placemen." It was indeed sensational. It concerned the disappearance of thousands of British civil servants who—and this was the curious thing—nevertheless went on drawing their salaries and inflation-proof pensions as before. Holmes had finally tracked down the miscreant responsible. He turned out to be none other than the official statistician who had, to use an expression more common in the New World, simply "rubbed them out." Or, to be more precise, by the use of a footnote in the annual Civil Service Statistics, had defined them out of existence and into a curious limbo of agencies and consultants. Whole staffs from the Imperial War Museum, the National Gallery and the Tate, the Forestry Commission and many others, amounting in all to 33,000, had been

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wiped out by a mere stroke of the pen, though they had not ceased to be a burden on the public purse. Even so, it was only after further research into the figures that an even more dastardly crime was revealed: at the time the Post Office was turned into a commercial corporation, some 420,000 faithful servants of the Crown, seemingly the most secure in their civil service status, were abolished at a stroke.

"All the same Holmes, despite your great work in the matter, I never felt that we ever quite got to the bottom of that case. The official statistician was what your American clients would call a 'fall guy' for some much more lofty and sinister people."

"Your suspicions are well founded," said the great detective as, his breakfast now completed, he knocked out the ash from his meerschaum into the blazing coal fire. "It was indeed only the beginning of an inquiry into a scandal the ramifications of which have since spread into every chancellery in the West. For," he went on, "these zombies who have ceased from earthly existence have been recruited into a secret army of quangos who threaten the very foundations of western polity."

"Quangos, Holmes?" I asked, my heart beginning to pound. "Were they not the poor devils we encountered in the Chelsea voodoo affair?"

Holmes chuckled ruefully, "Worse than that I'm afraid, Watson. Quango is the acronym for quasi-autonomous, non-governmental organizations, or more pithily, jobs for the boys."

Holmes paused for effect, well knowing the feelings of excitement which he had provoked. "It was I who supervised Mr. Malcolm Fraser's ruthless slaughter of Australia's quangos after the Whitlam Labor government had been sent packing. It caused, as the excellent Mr. Paul Johnson put it, 'a great wailing among Labour's placemen and Australia's legion of the Great and the Good, but it did no harm to Australia.' "

"Good heavens, Holmes. You astound me," said I. "But why have we not been able to employ the same methods here?"

"That," said Holmes, "is what a great many public-spirited people are asking. Mrs. Thatcher is, if I may use the expression, man enough to do it, but she has been foiled by a conspiracy concocted deep in the recesses of Whitehall. Have you heard of Sir Leo Pliatsky?" I remembered well. Despite his suspiciously foreign-sounding name, Sir Leo had been a Whitehall mandarin to whom our Prime Minister had given the task of drawing up a "death list" of quangos, only to find that his primary aim seemed to be to pre-

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serve them. "I am afraid," said Holmes sadly, "that Pliatsky belongs to the other side."

"Meanwhile Watson, we are wanted elsewhere. Pray call a cab; we are off to Heathrow airport." With the help of the Concorde and the attachment of false whiskers, we were soon conveyed incognito to The Heritage Foundation in Washington where Holmes's great deductive powers were immediately applied with great effect.

"The situation is even worse than I thought," said the famous sleuth, after a rapid examination of the records. "In addition to paying the 2.9 million civilians openly employed in the government, Uncle Sam is also paying the wages of a further 9 million members of what can only be called an invisible army. A sensational report in the *National Journal* by Barbara Blumenthal points out that 'outlays for grants and contracts, which support most of the government's direct employees, grew from about $65 billion in 1970, to $150 billion in 1978.' "

"Indeed," continued Holmes, becoming for him unusually excited, " 'the consulting bill for Health, Education and Welfare alone increased from $94 million in fiscal year 1977 to $198 million in fiscal year 1978.' "

"Good heavens, Watson! According to Professors Bennett and Johnson in their chilling *The Political Economy of Federal Government Growth: 1959–1978,* these statistics may very well vastly understate the true numbers of this invisible army, which may account for more than 10 percent of the civilian labor force rather than the 2.4 percent that the highly-placed conspirators would have us believe."

At that moment, the telephone rang. Holmes disliked this modern invention because it limited the scope of his deductive powers to analyzing the slang and accents of clients. I recall the occasion on which he astonished George Bernard Shaw by divining the suburb of Dublin in which the playwright had been raised solely from his pronunciation of the word "corpse." (Friends tell me that Shaw later embodied this notion in one of those plays of his.)

Holmes, nonetheless, picked up the telephone without hesitation. After a pause, he grunted, "So they have moved against you already, Stockman, have they? Hold them off as long as you can. We're already on our way." And, replacing the receiver, he uttered the familiar words: "Bring your service revolver, Watson. We are dealing with desperate fellows."

Russell Lewis

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Book Reviews

Imaginary Fascism

FRIENDLY FASCISM: THE NEW FACE OF POWER IN AMERICA. *By Bertram Gross.* (M. Evans & Co., New York, 1980)

One of America's great humorists, Frank Sullivan, created a memorable character in the pages of the *New Yorker,* called Dr. Arbuthnot, "the cliché expert." For those too young to remember, Dr. Arbuthnot used to be called to the witness stand to testify on current clichés. Bertram Gross' book reminded me of Frank Sullivan, which is the only good thing I will say for it. Here's the way Dr. Arbuthnot might testify about *Friendly Fascism*:[1]

Q. Dr. Arbuthnot, you are an expert on clichés, are you not?

A. The one and only, highly prestigious and widely quoted, always there in a crunch.

Q. Now, I have here a book by Professor Bertram Gross, Distinguished Professor of Public Policy and Planning at Hunter College, which you have thumbed through—

A. Hastily, eagerly, impatiently.

Q. I would like your opinion on this—

A. Magisterial work?

Q. Let us see. Now, you may recall, Professor Gross talks about people in—

A. "All walks of life."

Q. Who want to transcend—

A. "The dominant materialisms of the past."

Q. Who seek employment—

A. "That is fulfilling."

Q. Who want an education—

A. "That liberates the imagination instead of merely giving a certificate."

Q. Beautiful, Dr. Arbuthnot. Now to what do these people from all walks of life want "to commit themselves"?

A. "To purposes beyond careerism and institutional aggrandizement."

Q. And what else, sir?

A. "They seek new forms of community with others."

Q. And the things these people seek, what do they represent?

A. "Higher aspirations."

Q. And who prevents the realization of these higher aspirations, Doctor?

A. "Faceless oligarchs with invisible hands."

Q. Who else?

A. "The Ultra-Rich" and—

Q. Yes, yes—go on—

1. Everything in quotes is taken exactly from the text itself.

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A. "The Chief Executive Network, the Golden International, the Corporate Overseers."

Q. Excellent, Doctor. And what happens to these higher—

A. Yes, yes, I know, you needn't go on. "On these cruel rocks, the waves of higher aspirations are repeatedly shattered."

Q. And how is Friendly Fascism to be achieved in America?

A. "By a despotic order backed up by naked coercion as well as sophisticated manipulation."

Q. And what do these people from all walks of life suffer from?

A. Why anyone would know that. "Loneliness and alienation."

Q. Thank you, Dr. Arbuthnot. You have been a—

A. A most cooperative witness, a willing witness, always ready at this or any other point in time to put it on the line in an hour of crisis. Anytime.

Curtain

Were this book merely a congeries of such ghastly clichés, it wouldn't be worth another paragraph. But the book is far more than the sum of its clichés. Although the book was written and published before President Reagan's election, I am sure that for Professor Gross that event is proof positive that his pythonic revelations of "Friendly Fascism" are on the eve of fulfillment.[2] One can assume that during the next four years the charges of "Friendly Fascism" will be heard even more stridently on the Confused Left, represented by Professor Gross, and on the Hard Left which knows how Utopian longings can be transformed into a campaign to weaken the only country in a war-threatened world still capable of resisting Soviet imperialism.

Professor Gross, however, is no wholly innocent bystander and his accusations of "Friendly Fascism" against President Reagan will surely come. After all, he quotes quite happily from a wretched book by Kenneth Lamott, *Anti-California: Report from Our First Parafascist State,* published in 1971.

In the guise of a loving Cassandra, an American patriot, Ombudsman-at-Large, Professor Gross draws up an indictment, based on unprovable statistical claims,[3] of the American polity such as not even *Pravda*, *Izvestiya* or Moscow Radio in their wildest imaginings would

2. For Coretta Scott King, It Has Already Happened Here. She was quoted in the *Florida Times Union* (October 6, 1980) as warning that Mr. Reagan's election would set the civil rights movement back two decades. "I feel that with a Republican president this country would move further toward the right," said Mrs. King, "and we would move to a fascist state. And I do not think this would be speaking too strongly to say that."

3. By unprovable statistical claims, I refer to Professor Gross's citation of Dr. Gerald Klerman, a Harvard psychiatrist, who "estimates" that one out of eight Americans—about 28 million people—"can expect to experience depression during his life." Perhaps, Dr. Klerman had some scientific reason for making such an unprovable estimate—and a rather meaningless one at that. But how about a comparison—how many Japanese, French, Papuans will experience depression—and what does the estimate mean, if anything, except

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concoct. His book, decorated with the apparatus of objective scholarship, purports to predict the possible, the probable, the inevitable, the not-so-inevitable (these are all the author's crystal ball formulations) translation of American democracy to a state called "Friendly Fascism." Why not "Friendly Communism" as a possible future? Why "Fascism," a so-called ideology with no canonical texts, with no definable content and no reification in any modern industrial state?[4]

Before going into more details, let me say that as a book it is one of the sloppiest pieces of proof-reading I've come across in years of reviewing. I stopped counting typographical errors after reaching the number thirty. The chapter 8 footnotes are a mess. Names are misspelled. William C. Sullivan, the late FBI executive, is confused with Walter Sullivan, the eminent *New York Times* science writer. Professor Gross refers to "approximate technologies" when he means "appropriate technologies." He talks about the "immortality (sic) and irresponsibility found in the slum society." The Nazi Kristallnacht becomes Kristolnacht, no doubt because he has Irving Kristol on his mind all over the book. He misspells the names of Christopher Lasch, Leopold Tyrmand, Victor Zorza, Papandreou, Richard Viguerie, Richard Herrnstein, and my own name. He says "formerly" when he means "formally"; quotes *Business Week* in the text but it's *Newsweek* in the footnotes—take your pick. He talks about "a cinematic holograph of horror," whatever that means.[5] There is no such word as "investigatorical." To top it off, he cites two different news stories from the *New York Times*, three years apart, with the same headline over both.

Professor Gross is currently also a Professor of Political Science at The City University of New York. He is described as the major architect of the Humphrey-Hawkins Full Employment Act of 1978 and the Employment Act of 1946 in their original forms. He was at one time Executive Secretary of the President's Council of Economic Advisers. He could properly be called a liberal Democrat.

Professor Gross believes that America's "probable future [is] a new despotism creeping slowly across the country." It is a future to be brought about by "faceless oligarchs [who] sit at command posts of a

that people are people? He quotes Dr. David Rosenthal of the National Institute of Mental Health as saying that "possibly 60 million Americans are borderline schizophrenics or exhibit other deviant mental behavior in the schizophrenic category." For Professor Gross, these statistics prove the development in America of "friendly fascist" tendencies. Presumably people with "friendly Communist" tendencies do not suffer from depression or schizophrenia.

4. "[T]here has been a general reluctance to consider what must be a definite possibility; namely, that fascism as a generic concept has no validity and is without value for serious analytical purposes." Henry Ashby Turner, Jr., "Fascism and Modernization," *World Politics,* 24:4 (July 1972), p. 563.

5. There is an extraordinary amount of what might be called "psycho-babble," sentences of sticky prose which are difficult to understand; e.g., "History is full of too many cases in which sweet talk about bottom-up planning has been a facade for top-down domination."

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corporate-government complex" subverting the Constitution.[6] It will be the Land of Cactopia, in Bentham's nonce word, with the worst of all governments committing the worst of all evils. Professor Gross might remember something Michael Walzer, a democratic socialist, wrote a decade ago that "talk of American fascism seems only a gruesome (and for some people, I suppose, entertaining) escape from the need to face honestly the extent of far Left failure."

What is so shocking about Professor Gross' "prophecies" about "Friendly Fascism" is that, despite his disclaimers, he is saying that in a matter of time, America will be a land of rampant vicious nationalism, slavery, genocide, totalitarianism, official lies, xenophobia, anti-Semitism, imperialism, mass oppression and exploitation, and concentration camps. These attributes of old-fashioned fascism need not be, he says, but why then use the word "fascism"?

By a rhetorical trick, known as aposiopesis, he makes everything that is happening now, no matter how trifling or unprovable, a symptom of "Friendly Fascism" and so the present becomes the future. His futurology is on a par with the article in the Soviet *Pionerskaya Pravda* (October 10, 1980) which said, "More and more people are beginning to realize that Zionism is present day fascism."

The test today of a man's ethical sense is his outlook on the Soviet Union after more than six decades of totalitarian dictatorship in the name of socialism. It is now a widely accepted mode of political discourse in the non-Communist world for Left-liberals to utter nasties about Stalin and, occasionally, the Soviet Union. Eurocommunists are sometimes critical of the U.S.S.R., but never critical enough to make an irreparable break. So to offer a few ritualistic strictures about the U.S.S.R. no longer has much significance in identifying someone's outlook on the Soviet Union and its esurient foreign policy. Here and there, Professor Gross utters a caveat about the Soviet Union, but how analytical and relevant are these caveats?

Professor Gross fails utterly to realize that, as Professor A. James Gregor has argued, fascism may well be a variation of the radical socialism prevalent in Italy before World War I. Professor Gregor has also shown in a masterly piece of research that the standard Soviet interpretation of fascism has undergone critical changes.[7] The new revisionism among Soviet social scientists demonstrates a sympathetic understanding about the role of fascism in European history, how it "eroded" the foundations of "bourgeois democracy," and how it

6. The wonderful thing about such imagery is you never have to put up a fact. Thus you never have to identify the "faceless oligarchs," since facelessness also presupposes anonymity. If they weren't faceless, Professor Gross would have to identify them. And you needn't say what part of the Constitution is being subverted; all of it. Professor Gross so constructs his allegations as to preclude any evidence against them.

7. A. James Gregor, "Fascism and Modernization: Some Addenda," *World Politics* XXVI:3 (April 1974), pp. 379 *passim*. The Galkin article quoted by Professor Gregor is "Capitalist Society and Fascism," *Social Sciences; USSR Academy of Sciences II* (1970), pp. 128-38.

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"spurred" economic activity, and how it provided for an "increased degree of vertical social mobility," according to Alexander Galkin, a Soviet social scientist, quoted extensively by Professor Gregor.

Professor Gross ignores the significant similarities between what he describes as the symptoms of fascism with what goes on in the Soviet Union and its subordinate states—imperial expansion, domestic repression, militarism, racism, the Great Leader or the Leading Role of the Party, destruction of free trade unions and collective bargaining, political terror. For Professor Gross, a regime is fascist if and only if it is "interlocked with concentrated capital." He fails to examine the concentration of capital by the Soviet New Class—the Party, the Presidium, the Central Committee, the Politburo—which monopolizes all the country's capital without any accountability and with a degree of power that no capitalist or fascist regime ever possessed in peacetime.

Even worse, Professor Gross reveals an extraordinary unawareness of the extent of what he calls, "the brutalities of a Stalin or his heirs." He says that in Hitler's Germany, "domestic repression probably exceeded that of any other dictatorial regime in world history." Can it be that this Distinguished Professor has not read Solzhenitsyn, Conquest, Bukovsky, Schapiro—who would tell him that, both in numbers and inhuman efficiency, Soviet terror—the Stalinist as well as "friendly" kind of today—far exceeds the horrifying brutalities of Adolf Hitler? And the Mao terror in China, the Great Proletarian Cultural Revolution, the enslavement of millions of Chinese, the Castro terror in Cuba? Stalin's extermination of the "kulaks"? I haven't checked the *Guinness Book of World Records*, but if there is a world champion dictator, Stalin and his epigones easily get first prize.

The most atrocious section of this book deals with how the "Friendly Fascist Establishment" has been expanding military expenditures so rapidly that "there may even be good reason for the nervous old men in the Kremlin to feel threatened."[8] A statement like that persuades me that Professor Gross is, as I said earlier, no wholly innocent bystander.[9] Any comparison between Warsaw Pact and NATO forces shows Moscow's overwhelming superiority in strategic ICBM launchers, submarine-launched and intermediate-range ballistic missiles (1660 Warsaw to 802 NATO), combat manpower, main battle tanks (26,700 to 11,000), and tactical aircraft. The "nervous old men in the Kremlin"—was there ever a more idiotic (or sinister) description of a

8. This passage was written by Professor Gross before the Reagan landslide. One can imagine if they were so "nervous" during the Carter unilateral disarmament program what Professor Gross thinks they are now at the beginning of the Reagan-Haig-Weinberger era. Why it might almost justify the nervous old men in the Kremlin in considering a preventive war. Something for Professor Gross to consider in a future revised edition.

9. On page 367, Professor Gross praises the National Emergency Committee on Civil Liberties and the National Lawyers Guild for their "valiant efforts" in fighting for civil liberties. I'm not sure that the American Civil Liberties Union, whom Professor Gross also cites, would enjoy being in such dubious company.

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military super-power which feels free to march into Angola, Ethiopia, Afghanistan, Cambodia, either with its own Red Army or through surrogates? A super-power, whose leader told the 1976 Soviet Party Congress that "we do not conceal the fact that we see detente as a way of creating more favorable conditions for the peaceful building of Socialism and Communism"?

Despite these and other examples of Soviet imperialism abroad and Soviet "Gulagism" at home, despite the Red Army and Warsaw Pact military siege of Poland, Professor Gross talks only about the dangers of U.S. "expanding militarism" which, he says, enables "establishment leaders to deflect attention from social injustice and racism at home by stirring up hostility *toward imagined enemies abroad*" (italics added and with good reason).

As I read through these pages and footnotes, I kept wondering where had I seen these formulations, this corrupted language before. Many of these judgments seemed so familiar, like old newspapers and family photographs. And then it came to me. Of course. By a transcendental process known as Lamaism, we have witnessed a miraculous direct reincarnation—from the Grand Lama that was, Herbert Marcuse, and his unique revelation, "repressive tolerance," to the current, would-be Grand Lama, Bertram Gross, who has altered that Marcuse concept to "Friendly Fascism," or to use Professor Gross' synonyms, the new fascism, creeping fascism, fascism with a smile, neo-fascism, dependent fascism, expediential fascism, and genuine neo-fascism.

Professor Gross never mentions Marcuse, but he's there, hypostatizing prose and all. It was Marcuse who argued that by creating a system of "repressive tolerance"—i.e., fulfilling the Bill of Rights—democracy creates "the most efficient system of domination," that this system prevents the development of the "consciousness of servitude." Instead, democracy has created the "happy consciousness which facilitates acceptance of the misdeeds of this society." And what is "happy consciousness" if not "Friendly Fascism"? It was Marcuse who told us that "liberal society necessarily gives birth to an authoritarian state," that tolerance "serves the cause of oppression," that even progressive movements can have "a reactionary effect if they accept the rules of the game."[10]

In a later work, *Counter-Revolution and Revolt*, Marcuse argued that civil rights in America are part of the counter-revolution—"the democratic-constitutional phase"—which, he said, prepares "the soil for a subsequent fascist phase." In other words, the more freedom exists, the more inevitable is fascism.

Professor Gross' thesis is that American capitalism has learned the process of co-optation—"multilevel co-optation," he calls it. It is a process of recognizing new actors in society who are knocking on the doors for entry. Thus thousands of jobs get distributed to dissidents and rebels and "purportedly radical organizations" so they can let off

10. Marcuse's works are many but one which gives a clue to Professor Gross' manipulative skill is Marcuse's essay in *A Critique of Pure Tolerance*. (Boston: Beacon Press, 1967).

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steam harmlessly. Then there is multi-ethnic co-optation in which conspicuous roles are assigned to blacks and Jews and women, all of which would lead to "Friendly Fascism." Thus, argument is invincible. If blacks, Jews, and women are refused entry into the system of decision-making, program-planning, administration, whatever, it's brutal racism, sexism, anti-Semitism, and fascism. If the doors are opened to racial and religious minorities, why it's multi-level, multi-ethnic co-optation. You can't lose.

Professor Gross has written his book not in the guise of a preacher or theologian but posing as an expert economist, a professor of political science, a pragmatist, a practitioner of rational procedures in the search for knowledge. In actual fact, however, his book is the work of a preaching professor. As Edmund Burke wrote:[11]

> These professors. . . . see no merit in the good, and no fault in the vicious, management of public affairs; they rather rejoice in the latter, as more propitious to revolution. . . [T]hey therefore take up, one day, the most violent and stretched prerogative, and another time the wildest democratic ideas of freedom, and pass from the one to the other without any sort of regard to cause, to person or to party.

Arnold Beichman

The Prophet Abroad

SOLZHENITSYN AT HARVARD. THE ADDRESS, TWELVE EARLY RESPONSES, AND SIX LATER REFLECTIONS. Edited by Ronald Berman (Ethics and Public Policy Center, Washington, D.C. 1980)

In June 1978 Aleksandr Solzhenitsyn gave a commencement speech at Harvard entitled "A World Split Apart." It is published here together with the immediate, and then some later, more lengthy, responses. Rarely have commencement addresses received such attention, but then rarely does a man of Solzhenitsyn's stature make a commencement speech. The conversation he thus started with America is certainly worth continuing. But before I enter in, a summary of what Solzhenitsyn said at Harvard is in order.

Solzhenitsyn's focus was on one piece of the world split apart, the West. He began by noting certain of its "contemporary aspects." Particularly noticeable among the ruling and intellectual elites, he said, has been "a decline in courage," which from ancient times has been "the first symptom of the end." Throughout all levels of society, moreover, one can see a "well-being" achieved through an "almost unlimited freedom in the choice of pleasures." In the pursuit of this well-being, human rights have become paramount, "human obligations" forgotten. Western society is "legalistic," he said, and "voluntary self-restraint almost unheard of." The misuse of liberty has no effective counterbalance; the freedom to see

11. Edmund Burke, *Reflections on the Revolution in France*, edited by F. G. Selby (London: Macmillan, 1906) p. 70.

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pornography, for example, has not been offset by the freedom "not to look and not to accept." Thus has a "tilt of freedom toward evil" come about.

Solzhenitsyn then turned to the Western press. It has abused its freedom, he said. It does a hasty and superficial job. Yet it has become the "greatest power" within the West. And through its power "patterns of judgment" have become homogenized; there is little diversity. The intellectuals think alike, and this has given birth to "strong mass prejudices."

Given all this, Solzhenitsyn asked, "Would I propose the West, such as it is today, as a model to my country?" Solzhenitsyn, perhaps surprisingly, could not. He recognized that Soviet Russia cannot remain "in an abyss of lawlessness," but for Russia to copy the West as it is today would not bode an improvement in the character of the people of his country. "The human soul longs for things higher, warmer, and purer than those offered by today's mass living habits, introduced as by a calling card by the revolting invasion of commercial advertising, by TV stupor, and by intolerable music." The Western way of life, said Solzhenitsyn, is "less and less likely to become the leading model" and not only for the reasons given. You – the West – lack a great statesman, he said, and this is a sure sign that the West is perishing. "Very well known representatives of your society," he said, argue that we cannot apply moral criteria to politics, and thus you – the West – have made space "for the absolute triumph of evil in the world." In Vietnam and since, the West has shown that it is not willing to die in order to defend itself; such unwillingness is to be expected of a society "raised in the cult of material well-being."

Solzhenitsyn asked how the decline of the West he had sketched has come about, and traced it to a mistake "at the root," in the Enlightenment notion of "humanistic autonomy" which places man at the center of all things. This humanistic way of thinking, which has provided the basis for Western democracies, "did not see any task higher than the attainment of happiness on earth," and "started modern Western civilization on the dangerous trend of worshipping man and his material needs." Freedom and the pursuit of material well-being have been protected in the West, but "all other human requirements and characteristics of a subtler and higher nature were left outside the area of attention of state and social systems." The heritage of the preceding 1,000 years, which was recognized in the "early democracies" by their insistence that freedom was conditionally given by God on the assumption of man's religious responsibility, has been lost. "The West has finally received the rights of man . . . but man's sense of responsibility to God and society has grown dimmer and dimmer." The present consciousness is one of autonomous, irreligious humanism, and it is seen in the East and the West, our spiritual life having been trampled in the East by the "party mob," in the West by the "commercial one." Consequently, the split between the two worlds is "less terrifying than the similarity of the disease afflicting its main sections."

Solzhenitsyn concluded his address by denying that man is born only to be happy. Because the body is doomed to die, he argued, the purpose of life must be something else: "to leave life a better human being than one started it." "Only by the voluntary nurturing in ourselves of freely accepted and serene self-restraint can mankind rise above the world stream

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of materialism." This, though, was not Solzhenitsyn's only sermon. He also wanted us to throw away "the ossified formulas of the Enlightenment," and ask such questions as: "Is it right that man's life and society's activities should be ruled by material expansion above all? Is it permissible to promote such expansion to the detriment of our integral spiritual life?" Solzhenitsyn asked for nothing less than a "new height of vision" where our "physical nature will not be cursed, as in the Middle Ages, but even more importantly, our spiritual being will not be trampled upon as in the Modern Era." We are at a watershed in history, and we must move on to what he called "the next anthropological stage."

So went "A World Split Apart," and it quickly drew rebuke, much of it sharp, in the American press. An editorial in *The Washington Post* wrote off Solzhenitsyn's views as "very Russian"; Archibald MacLeish put the same point differently by saying Solzhenitsyn knows little about America. The *New York Times* asked Solzhenitsyn to understand the virtue of a society organized on "tolerance of many ideas." James Reston, in a comparison of remarkable obtuseness, said Solzhenitsyn favored a "benevolently autocratic, religious state." *National Review*, though generally approving, twitted Solzhenitsyn on the smallest points. Most everyone, it seems, had something disapproving to say about the Russian exile's comments on the legal system or the press.

There were exceptions to these general lines of criticism, notably a column by George F. Will. Mr. Will, like Ronald Berman in one of the later responses published in this collection, recognized that Solzhenitsyn appeared at Harvard not as an outsider, from Russia, but as a self-critic, one standing in the Western tradition, specifically in that line of thought stretching from Cicero and the ancients, to Augustine, Aquinas, Hooker, Pascal, More, Burke, and Hegel, and then, in America, from Tocqueville to Henry Adams, Irving Babbitt, Paul Elmer More, and Peter Viereck. Mr. Will correctly noted this doubt of Solzhenitsyn's: that "a society founded on lightly regulated selfishness can summon the vision and sacrifice necessary for combating determined enemies." And he also correctly noted that what Solzhenitsyn fundamentally did at Harvard was to restate "the most ancient and honorable theme of Western political philosophy."

Unfortunately, George Will did not proceed to delineate that theme, nor did any of the later contributors to *Solzhenitsyn at Harvard,* although several of them – notably Ronald Berman, Harold J. Berman, and Michael Novak – were implicitly aware of it. This is where I will enter the Solzhenitsyn conversation, at the point of this theme, and with the task of trying to place Solzhenitsyn more exactly into the Western tradition. This involves placing him into our own tradition, whose beginning antedates Tocqueville.

At the time of the Declaration of Independence, the best minds in America were concerned with nothing less than the "most ancient and honorable theme of Western political philosophy" – which is virtue. In 1776 most men agreed with John Adams, who then wrote that "virtue is the only Foundation of Republics." By virtue, Adams and others meant not the Christian virtues of faith, hope, and charity, but the less heroic ones of temperance, prudence, concern for the common good, and (the virtue Solzhenitsyn twice mentioned at Harvard) self-restraint. These

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virtues, though they were thought by most Americans to depend ultimately on religion, were thus civic or political in nature. They were referred to collectively as "republican virtue."

After 1776, however, as the young nation struggled to be born, it became apparent even to Adams that basing a Republic on virtue would be impossible. One reason was that the people themselves seemed incapable of governing their passions. Another reason was that the requirement that people be virtuous conflicted with the liberty promised in the Declaration of Independence. By 1787 the solution to the problem of democratic government had been forged, and it was a solution that sided not with virtue but with liberty. The Federalist solution made self-interest the cornerstone of the Republic and thus built the new nation on a common denominator lower than republican virtue. The Founding Fathers designed a commercial, not a virtuous, Republic.

While the success of the Founders is apparent in the fact that America has flourished for as long and as well as she has, their "new science of politics" was not without its flaws, as the Founders themselves knew, and as other Americans have recognized since. Indeed, even by the time of his second inaugural, a worried George Washington could say that "of all the suppositions and habits which lead to political prosperity, religion and morality are indispensable supports." One of the hopes the Founders had – that leaders of high character would emerge to govern the commerical Republic – was dashed by the first part of the nineteenth century. The statesmen of the Founding period were themselves the products of more virtuous conditioning than their successors (Jefferson, interestingly, in one of his later letters to Adams, expressed a desire for leaders who had undergone enforced religious instruction and a strict moral education that prohibited theatre-going and foreign travel). John Marshall, for one, noticed and regretted this decline in the character of statesmen, and before mid-century Lincoln, who would prove a conspicuous exception to the general run of poor leaders, was asking Americans to dedicate themselves to something higher and more noble than merely themselves, or else the Republic would decay from corruption within.

Solzhenitsyn's Harvard speech, while addressed to the West in general, seems specifically directed to America, not only because it was given in America, but also because of America's special place as the most important of the post-Enlightenment democracies. His speech, I think, can be placed in a solidly American tradition of thought that began as a possibility for founding America and then continued as the basis for American self-criticism; the speech, indeed, can be understood as the latest installment of this type of self-criticism. His criticisms of Western statesmen for their lack of courage, and of a democratic society for its unwillingness to defend itself – both of which are failures in civic virtue – are fairly standard criticisms made by American thinkers in this tradition. (Consider, by the way, that for a long while President Carter celebrated the fact no soldier had died while he was President. As Sidney Hook writes in this volume – a statement no doubt Solzhenitsyn would agree with and Mr. Carter may not understand – "Survival is not the be-all and end-all of a life worthy of man. Sometimes the worst thing we can know about a man is that he has survived.")

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But as a denizen of the twentieth century, Solzhenitsyn is also able to see where Adams or Lincoln could not. He has the advantage of seeing where the American experiment is heading as it begins its third hundred years. He has the advantage, more specifically, of seeing what has happened to virtue.

That the Founding Fathers could not design a system of government whereby republican virtue could be encouraged and supported within a Lockean framework of natural rights and liberty did not mean they were unconcerned with republican virtue, as we have seen. Yet one reason, perhaps, that the problem of virtue became less a problem for them, toward 1787, than it is today for Solzhenitsyn, is that the Founders had the good fortune of being able to design a system of government for a people who still by and large believed in God; there was, in 1787, still a lot of moral and spiritual principal in the bank, and it was earning the interest of republican virtue. Although Adams became pessimistic about the survival of the Republic toward his death, and although Lincoln and others worried deeply about the American future because of a lack of virtue in the people, the nineteenth century still could be said to have on deposit some of that moral and spiritual capital accumulated from past ages (from "older and sounder traditions," as Mr. Will says). Tocqueville noted in 1835 that Americans, despite the commercial character of their lives (set in motion by Madisonian self-interest), were not totally destitute in virtue because religion thrived. Irving Kristol has pointed out that until the Civil War businessmen were considered professional people and were expected to conduct themselves with self-restraint – with republican virtue. Not surprisingly, the two books most influential in shaping the American sensibility in the nineteenth century were the Bible and *Pilgrim's Progress.*

Today, however, forces unleashed by the Enlightenment (and thus even before the Founding of the Republic) have taken their toll. When Solzhenitsyn said at Harvard that "200 or even 50 years ago it would have seemed quite impossible, in America, that an individual be granted boundless freedom with no purpose, simply for the satisfaction of his whims," the important qualifier is "even 50 years ago." For it is within the past fifty years that the old distinction between liberty and license, which the Founders believed in, has almost completely broken down, such that today all pursuits of living are equally and publicly blessed. (One recalls the Democratic Party platform of 1980, which included a plank calling for no discrimination against individuals because of their "sexual" orientation.) Today rights are more and more important, obligations less and less so. Individuals are more and more important, communities less and less so. We make fewer demands on ourselves and more and more on social and governmental institutions. Philosophical and cultural relativism have made deep and, it would seem, lasting inroads into society. (Nothing so indicates the condition of our culture today than the rights-and-rules techniques of "values education," unless, perhaps, it is the presumption that values are something you "teach" from a "neutral" standpoint). People still go to church in America – far more so than people did in Colonial times – but this is not necessarily a sign that the moral and spiritual capital is being replenished. Indeed, the churches themselves have been vulnerable to contemporary forces. They have allied themselves with commerce (an Episco-

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pal prelate said in 1901 that "godliness is in league with riches"), and, more recently, with the government in the this-worldly pursuit of human desires. Meanwhile, government itself, so far from recognizing the value of religion to a polity, has been, since 1947, attacking religion by requiring of itself almost absolute neutrality toward institutions of faith and belief. As for the press, it is a homogenizing institution, at least at the national level, and it often knows no right other than its own to pursue what it regards as news. When Solzhenitsyn concludes that "man's sense of responsibility to God and society" has grown "dimmer and dimmer," he does so having surveyed the trend lines in recent American life. Far from not knowing us very well, it could be said he knows us only too well.

But what is finally interesting about Solzhenitsyn's Harvard speech is that he does not leave the matter there. He knows us, but he also wants to advise us. He is asking the question that ultimately must be asked of all political institutions: What kind of people, with what kind of character, do they produce? We would be a better people, he believes, if we exercised more "voluntary self-restraint." With this advice Solzhenitsyn sounds like Washington at his Second Inaugural. However true his message, it is certainly not original. And if this were all Solzhenitsyn had to say, one could conclude that he thought the solution to the problem of democratic government which the Founding Fathers devised in 1787 was correct, that republican virtue, however important, can only be secured by such appeals as Solzhenitsyn now is making, and Adams and Washington and Lincoln made before him: that individuals restrain themselves.

But this is not all Solzhenitsyn had to say at Harvard. His next and concluding plea – that we rise to a "new height of vision" – is more fundamental. It may be read as a plea for Americans to design a *new*, new science of politics. It is an implicit criticism that the Founders, who perhaps from their vantage point in history can be forgiven, did not do enough to ensure virtue in the polity. But it is not – or at least not necessarily – a statement that we should return to the distant, unmodern past. Self-interest and the commercial life very well may be important in the society Solzhenitsyn would like to see, because, he has said, he does not want a return to the Middle Ages where our "physical nature" was "cursed."

If this is a plausible interpretation of Solzhenitsyn's Harvard address, the Russian exile merely proposed on that June day two years ago that the West – and specifically America – draw on its considerable traditions if it wishes not to die but go forward. "Climbing onto that next anthropological stage," as Solzhenitsyn challenged us to do, is a challenge of immense proportions, possibly greater than the one which confronted the Founding Fathers 200 years ago. The sobering thought, if Solzhenitsyn is right, is that we may not have leaders of quite the same character as we had then, leaders who took the world indeed to a higher "anthropological stage." In any case, the doubtless, ironic truth is that it could only take a man of Solzhenitsyn's character, formed in the crucible of the Gulag, to give us this message.

Terry Eastland

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From the New Rhetoric on Human Rights

AMERICAN DREAM, GLOBAL NIGHTMARE: THE DILEMMA OF U.S. HUMAN RIGHTS POLICY. *By Sandy Vogelgesang.* (W. W. Norton & Company, New York, London, 1980)
HUMAN RIGHTS & AMERICAN FOREIGN POLICY. *Edited by Donald P. Kommers and Gilburt D. Loescher.* (University of Notre Dame Press, Notre Dame, London, 1979)
PUNITIVE MEDICINE. *By Alexander Podrabinek.* (Karoma Publishers, Inc., Ann Arbor, 1980)

In the aftermath of the recent election, President Carter consoled what remained of his constituency with the thought that his administration would be remembered for having placed a concern for human rights at the forefront of American foreign policy. Welcome as that change may have been—especially after the conspicuous amorality that characterized the recent past, so poignantly captured by the White House snub of Solzhenitsyn—a careful look at the new rhetoric surrounding the human rights issue reveals its appallingly sinister quality. One can well imagine the desperation of those millions paralyzed by the ubiquitous tentacles of the totalitarian state as they watched the spectacle of a free culture unable to appreciate its own libertarian legacy—unable, indeed, to locate the real meaning of the human rights issue in this century, the most brutal ever. For even as we witnessed the wholesale massacres of gentle lands under the banners of proletarian dictatorships, the self-styled "human rights squad" in our midst was directing its principal attention to the Western democracies, calling for the international redistribution of resources—and all in the name of rights, no less, in the name of so-called "economic rights." And in all of this egalitarian fervor, little heed has been paid to the fact that nowhere is equality less evident than in regimes where the ruling bureaucracy has the power to undertake the enormous task of total economic regulation, an outcome that countless theorists predicted *a priori*, given the incompatibility between the traditional rights to liberty and "rights" to goods and services, the political implementation of which ineluctably erodes traditional rights.

How ironic it must be to those living under so-called "democratic" constitutions that promise bread and deliver terror that the manifesto of the new rhetoric, the UN Declaration of Human Rights, was conceived in the aftermath of holocausts in two socialist regimes, actually allied at one time. That Declaration, however problematic its legal status, has had an enormous impact on the effort now underway to change fundamentally the entire Western economic structure. For by calling a "right" that which at best is a desirable goal (the list of such rights includes "free" holidays with pay, suitable employment, even equal access to "the arts"), the Declaration has given moral support to the strident, self-righteous demands of those who would pursue egali-

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tarianism at the expense of liberty: it has legitimized the activities of those who have no compunction about *using* people to bring about their desired world. Thus Sandy Vogelgesang, author of *American Dream, Global Nightmare* and policy planner for the Department of State, is not alone in interpreting that Declaration to imply the eventual demise of the Western—and in particular, American—status quo of (relative) economic freedom. As she sees it, "moving to meet the ideals [of the Declaration] would require a considerable redistribution of income in the U.S."—an eventuality she welcomes, evidently unmoved by the implicit violation of traditional rights.

In fact, her study is designed to persuade the reader that our traditional rights are not "absolute," their occasional violation being not only expedient but "moral," not only good politics but a reflection of genuine idealism. Her book is organized to set the stage for that argument: the first two parts, which deal with the diplomacy and politics of human rights and document the history of human rights legislation in the U.S., come to a head in the third part, which deals with the economics of human rights, the author's ultimate concern. To be sure, she is not indifferent to the cause of individual liberty: thus the first two parts use Cambodia and the Soviet Union as case studies of politically repressive regimes. Yet the full extent of the terror in these regimes does not really surface: the constant fear and want, for example, so poignantly described in such works as Vladimir Bukovsky's autobiography, *To Build a Castle*, or Solzhenitsyn's *Gulag Archipelago*, are hardly discernible. Moreover, Chile and Brazil are invariably cited as human rights violators on a par with Cuba or China; in fact, it is the former she especially warns against. At the same time, she recommends closer ties to the Third World, with whom "the U.S. can improve its standing...if it puts high priority on furthering economic and social rights." Accordingly, her analysis concludes with an impassioned argument for "a broad interpretation of human rights" since "a more narrow or traditionally Anglo-Saxon recital of political and civil rights alone misses the point of what worries much of the world and many disaffected Americans."

One can only wonder at the frivolity with which an uncompromising respect for liberty is thus cast aside as so much parochialism, as a mere "recital." Those who even now are surrendering their destinies and the destinies of their children to the mercy of the Indochina seas, those who flee the lands of their parents' graves by defying barbed wires and soldiers instructed to shoot on sight, must surely despair. But Sandy Vogelgesang is apparently interested less in the fate of these individuals than in change within the U.S. Thus she predicts that

> the ultimate significance of U.S. policy may lie not in promotion of fundamental freedoms abroad, but in domestic impact. The effect could range from more pressure on U.S. multinational corporations to support the sense of the Congress on human rights in their business operations, to closing political and economic gaps for U.S. women, blacks, and Hispanics, to assuring dignity for the elderly and providing reasonably priced health care for all Americans.

And so the new rhetoric of human rights, invoking the private ends

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that have ever motivated free individuals, proceeds to shift the focus of the debate away from the principal threat to human dignity today, away from the holocausts that follow ill-conceived utopian blueprints, and toward the provision of these ends not by private enterprise but by public force.

That shift of focus, unfortunately, is often considerably less subtle. One rather typical example is the symposium on *Human Rights & American Foreign Policy* held at the Law School Center for Civil Rights at the University of Notre Dame and published in 1979. In a key essay from that symposium, Rutgers law professor Tom Farer explicitly denounces the boorish American propensity to "a visceral anticommunism" and predicts that "a sustained and evenhanded effort to promote human rights will progressively inoculate the American public against [that] Manichean virus." Far from calling for an impartial outrage against abuses of both right and left, therefore, Professor Farer is clearly sympathetic to regimes with redistributionist policies, no matter how totalitarian the outcome of such policies may turn out to be. The entire thrust of this essay, in fact, is to oppose the allegedly mindless "antiradical bias" of the U.S. Evidently, to be able to claim that a concern for human rights will make it possible to become more tolerant of communist regimes requires so radically novel a definition of human rights as to render the original concept all but unrecognizable.

Professor Farer's essay appears in the concluding section of the Notre Dame symposium, in the part dealing with "Human Rights and Priorities in American Foreign Policy." The other six sections are entitled, respectively, "Human Rights Around the World," "Individual and Group Rights," "Human Rights: Conflicting Ideologies," "Human Rights: the Soviet Union and Helsinki," "International Monitoring Agencies," and "American Foreign Policy and Human Rights." It is this last section that features what is perhaps the most appalling instance of blindness to the barbarism that keeps its citizens fenced in and finds its legacy in Marx. The author of the essay in question, Roberta Cohen, a human rights officer at the Department of State, after criticizing Henry Kissinger (not entirely without justification) for being callous to matters ethical, then goes on to accuse him of corrupting the Office of Humanitarian Affairs. But consider the reason for her outrage: that office, she charges, "for the most part sidestepped the issue of human rights and focused its attention almost exclusively on the Vietnam refugee problem." The Vietnam refugee problem involves "sidestepping" human rights! If the 1960s left any moral vacuum, this surely is it. Orwell is undoubtedly too stunned even to turn in his grave.

To be fair, not all the contributions to this volume are quite so preposterous. But the claim made by editors Donald P. Kommers and Gilburt D. Loescher, that the book represents "a diversity of views," should not lead to overly sanguine visions of balanced perspectives concerning the meaning of human rights. Part III, for example, which is promisingly labeled "Conflicting Ideologies," has Rita Hauser addressing a participant from Zimbabwe: she defends, we are told, the "Western" conception of rights, yet her argument does not question

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the validity of so-called economic rights. While she admits that they are "derivative" compared to political freedoms, which are fundamental, in the end she simply claims that we have achieved a considerable degree of equality through (redistributionist) state measures. The difference between her position and that of her interlocutor would appear, therefore, to amount to no more than a matter of degree.

Only Part IV, which deals with the Soviet Union and Helsinki, could be said to present some sort of challenge to the antilibertarian bent of the rest of the symposium. A. H. Robertson cogently explains some key features of the Helsinki Agreement, while Peter Reddaway concisely and perceptively analyzes "The Theory and Practice of Human Rights in the Soviet Union." His claim, however, that "one of the major problems for the dissenting groups is the inertia and passivity of the general Soviet public, whose legal culture is virtually nonexistent and who have retained no viable independent values from the past," is at best surprising. Quite apart from the impossibility of documenting so universal a statement concerning the values of "the general Soviet public," Mr. Reddaway's serious charge against that entire people is egregiously insensitive to the terror that awaits a dissenter under the Soviet regime. Coming from the author of two splendid books—*Uncensored Russia: The Human Rights Movement in the Soviet Union*, and the painstakingly documented *Psychiatric Terror: How Soviet Psychiatry is Used to Supress Dissent*—such a lapse is altogether inexplicable.

"Terror" is no hyperbole: if the word calls to mind the days of Stalin, it well should. For psychiatric incarceration and torture are the new, more sophisticated, and considerably more efficient weapons the Soviet leaders are using against the less docile of their slaves. In his *Punitive Medicine*, Alexander Podrabinek describes these practices simply but incisively, with understated but unmistakable rage. This is an invaluable personal document in which Mr. Podrabinek argues that psychiatric abuse may surpass Stalinism itself: plainly "rooted in intolerance," this is indeed the very "triumph of intolerance," eliminating as it does even the facade of justice. For not only does Soviet psychiatry provide an excellent curtain to hide repression from Western eyes—already too willing to be blinded—it is also the best of deterrents. And its effectiveness is accordingly superior to mere murder:

> This is where punitive medicine becomes of service. No one abroad must know that resistance exists in the USSR. Our fellow citizens must not be inspired by the example of these few. The truth about the USSR must not be heard either abroad or inside the country. Trials make too much noise, and execution without a trial is too scandalous. Another solution has been found: declare political opponents mentally ill. Indeed, who would take a schizophrenic's resistance seriously? Of what value is information supplied by the feeble-minded? And who, in his right mind, would emulate the insane?

The book then proceeds to illustrate the manner in which this "civilized" form of barbarism is carried out. By the end, the reader comes to appreciate Mr. Podrabinek's report that inmates of the "special psychiatric hospitals" prefer labor camps, where they lose their physical

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health but not their intellectual and emotional capacities. Understandably, what terrifies most is not the agony caused by the various drug "treatments" carried out by professional sadists, but their effects on the psyche: the irreparable damage. Yet despite the knowledge that he might suffer the same fate, the author set out in 1973, at the age of twenty, to find out all he could about the institutions of medical terror. His first book together with its documentation, was confiscated by the secret police in 1977. Mr. Podrabinek nevertheless succeeded in reconstructing it, partly from memory and partly from notes he had managed to hide. His inevitable arrest—charged with disseminating premeditated fabrications denigrating the Soviet system—after constant harrassment, came the following year; sentenced to exile, he is still in Siberia today. But his book has reached us, and with it one more proof of the reality behind the barbed wire so neatly camouflaged in the loftiest rhetoric.

Nor is this "mere" rhetoric—or, better, rhetoric is never just "mere." Behind a suppressed premise or an equivocation may lie a country silenced, and sane men turned vegetable by fearful drugs. Nor is logic alone at fault, but equally—and maybe more—a lack of will and understanding. Whatever the reason for it, seeing the philosophical battles on human rights being fought by so many academics and politicians in this country today with such disregard for a genuine moral sense—in the name, no less, of freedom—is especially disturbing. For as Daniel Patrick Moynihan aptly put it:

> Human rights is the single greatest weapon we have left for the defense of liberty. It would be calamitous if we allowed ourselves to be robbed of it by the voices of fear and guilt, inside the government or out.

Calamitous not only for the millions who have paid and continue to pay with their lives; calamitous, indeed, for the very ideal of human dignity which is meaningless without liberty. Were they called upon to do so, the Indochina seas would surely stand witness.

Juliana Geran Pilon

Questioning Authority

THE POLITICS OF REGULATION. *Edited by James Q. Wilson.* (Basic Books, New York, 1980)

Thank heavens for a book that gets right to the point, and *The Politics of Regulation* hits its theme song just as soon as it can: in its title. Regulation *is* politics.

As the book's editor, James Q. Wilson, the distinguished Harvard political scientist, notes, "To citizens, such a statement will appear self-evident, even trivial; to scholars studying the subject, it is controversial." And "controversial" is a big improvement over "heretical," which is what the notion was just a few semesters back.

Among professional economists in the 1930s and 1940s the unquestioned hypothesis was that behind every free market lurked a poten-

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tially disastrous monopoly, a menace that could only be successfully resisted by the tools of state. Thus, regulation of business by government was, with almost no critical analysis, thought to have something to do with keeping monopoly power in check, and bringing the economic machine to at least within spitting distance of that textbook economic Heaven, "perfect competition."

As regulation spread beyond its early goals of public utilities and antitrust activity, it became apparent that much regulation had little to do with monopoly power—except that it served to create it. The obvious examples: professional licensing statutes, the Interstate Commerce Commission, the Civil Aeronautics Board, the Federal Maritime Commission, and the Federal Communications Commission. This regulation-created monopoly power became obvious to everyone *except* the economists.

It really wasn't until about twenty years ago that economists began serious, critical evaluation of the regulations that had spread to every little, dark place in America. Of course, when they did wake up they nearly tipped the boat over backwards by instantly attributing *all* regulation to what is dubbed the "capture" theory: "regulation is acquired by the industry and is designed and operated primarily for its benefit," in the words of George Stigler.

The Politics of Regulation gives ten top-notch political scientists a chance to respond to the economists' "capture" theory. Each writer analyzes a different regulatory apparatus (with the exception of the editor, who artfully summarizes writers one through nine), with the result being a fabulously well-endowed picture of nine of our favorite bureaucratic brainstorms: public utility rate-setters (state), the Federal Maritime Commission, the Civil Aeronautics Board, the Justice Department's Antitrust Division, the Federal Trade Commission, the Food and Drug Administration, the Occupational Safety and Health Administration, the Environmental Protection Agency, and the Office of Civil Rights.

What are the highlights of this Everything You Always Wanted to Know About the Bureaucracy but Were Afraid to Question? Let's start with that ever-popular body, the Federal Maritime Commission (FMC). Far from saving us from the Monopoly Monster, this slow-witted beast operates for the *explicit* purpose of fixing overseas shipping rates. That is, the FMC uses taxpayers' blood to enforce a cartel which author Edward Mansfield deems would be a "per se violation of the antitrust laws"—if it were done without federal employees. But, the worst may be that they do such an inefficient job. Hundreds of bureaucrats are employed in what one lawyer describes as a "pure paper-shuffling operation." An entire, elaborate procedure has been constructed in setting shipping rates that gives the fragrance of "due process," when in fact the rates simply conform to the cartel's best estimate of optimal monopoly pricing. As Mr. Mansfield, a Harvard grad now in the Yale Law School, points out: "It is difficult to describe the standards of review that the analysts in the Office of Agreements apply, largely because the analysts themselves do not know what standards they are using."

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The Office of Tariffs in the FMC, is a whole different story—they have standards. Of 339, 893 pages of tariffs filed in 1976 they bounced out 3,342 pages. Why? Because "31 percent were rejected for violating the thirty-day provisions....25 percent were rejected because they violated '46 CFR 536.3,' the FMC's regulations that cover such technicalities as the width of the margins, the quality of the paper, and the numbering of the tariff pages...13 percent were rejected because a permanent tariff filing did not match a temporary one." The bureaucrats themselves can be absolved of the charge of sloth, for the FMC—according to the Justice Department—has "only minimal ratemaking powers over foreign commerce." The author found "one tariff analyst [who] confessed he does not even look at individual rates. This is understandable," Mr. Mansfield allows, "though it leaves unanswered the question of just how the analysts do spend their time."

How the government's antitrust attorneys spend their time is far less of a mystery, as Suzanne Weaver (Justice Department Antitrust Division) and Robert Katzman (Federal Trade Commission) demonstrate. Lawyers go into Washington service with one overwhelming passion: they lust to litigate. Their interest is to find a "violation," file the papers, and get into court. Suzanne Weaver found "what the younger attorneys wanted most out of their time in the division was to learn their craft as antitrust attorneys. They considered this craft inseparable from the art of prosecution.... And their hopes for future employment in the private bar did not make them very timid in their idea of what constitutes proper enforcement. On the contrary, they professed to believe that being an energetic prosecutor was the way to build a good reputation with private and government lawyers alike."

Such professional goals permeate bureaucratic behavior, and thus tilt policy, in all regulatory agencies. What oddly emerges from such articles as Robert Katzman's, however, is the contention that such evidence overturns the economists' claim that regulatory agencies are inevitably taken hostage by private interests. He is merely underestimating the economist's ability to generalize and, where necessary, to spin a tautology (as in the assumption that individuals pursue their self-interest). Such investigations of bureaucratic behavior, which demonstrate the ways in which the governing class has *itself* succeeded in using "public interest" regulation for private advantage, simply furthers the economists' general argument, rather than vice versa.

At the FTC, Robert Katzman goes into great detail about the fundamental conflict between the "prosecution-minded" attorneys and the analysis-oriented economists. The former view the latter as unrepentent obstructionists, "case-killers." Whereas the "staff attorney wants to secure trial experience" by lots of legal actions, Mr. Katzman cites "one typical young (FTC) economist" who asserted, "We are saviors of the free market, contending against forces bent on government intervention." While the author attributes such differences to ideology and professional norms, he misses a great fraction of truth by failing to scratch any deeper. Why are economists and lawyers so divided in terms of philosophy and career goals? The answer is revealed by going

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straight to their respective employment forms: a lawyer's job is the art of negotiating up, over, around, and through a given set of laws; the economist's task is to organize a theoretical explanation of the world as it effects consumer welfare. While attorneys have every interest in squeezing the technical, formal aspects of antitrust (or any) law, the economist must justify his chalkboard graphics in terms of efficiency—as judged by the consuming public. The policy of government-enforced inefficiency makes no sense from the consumer's side and it is crystal clear just where this type of incentive structure heads us. Little wonder that the real political support for antitrust action against the most successful, efficient, consumer-pleasing firms comes from those Chrysler-like enterprises which have been outcompeted. When Mr. Katzman cites FTC activism as evidence that the agency has not been captured by The Interests, he reveals his extreme naivete about the ever-present cross-currents in regulatory action: prosecution of Xerox will make Savin's stockholders very happy folks. The key question which goes unasked, let alone answered, is why antitrust regulation has been so dominated ("captured" if you will) by litigation against efficient firms. How are middle-sized inefficient corporations able to motivate state action on their behalf?

Overall, the problems presented in this book are simply insurmountable—within the regulatory framework. The Office of Civil Rights must enforce the well-known Title VI provisions for non-discrimination in education: "No otherwise qualified handicapped individual in the United States shall, solely by reason of his handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under" any federally-assisted program. Harvard graduate student Jeremy Rabkin comments, "As HEW later pointed out, the requirement that an otherwise qualified individual not be discriminated against solely by reason of his handicap would, if taken literally, entitle a blind man to demand employment as a bus driver...." Mr. Rabkin, in his lengthy and well-documented essay, also shows how Congressional intent can be completely lost in the bureaucratic maze. While Senator Hubert Humphrey and other supporters of the 1964 Civil Rights Act "were profuse in their assurances that Title VI would not allow bureaucrats to impose extensive busing plans to achieve racial balance in the schools, to impose statistical quotas in school admissions or employment, or to pursue other such extreme policies... within two years it (the OCR) was requiring statistical indications of effective school integration and within four years was requiring busing."

The conclusion that must arise from this piece of scholarship is that the regulatory agencies have, in a very real way, acquired lives of their own. As Professor Wilson writes, "Whoever first wished to see regulation carried out by quasi-independent agencies and commissions has had his boldest dreams come true. The organizations studied in this book operate with substantial autonomy, at least with respect to Congressional or executive direction." But the bright spot is that books like this are finally being written. Hard questions are coming to bump out wishful thinking. When the editor cites a former Consumer's

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Union lobbyist to illustrate the point that "the advocates of regulation tend to believe that motives and intentions are more important than results, and the implementation problems are matters of mere detail and goodwill," he uncovers the ground-zero flaw in regulation. It *is* more complex than White Hats/Black Hats.

At bottom, two crises plague regulators—even the pure-of-heart. First: the judgment call. Does the FDA administrator approve a drug which will save 1,000 lives each year—but potentially kill double that number if used improperly? Does the EPA official stop pollution in Gary, Indiana—by throwing 100,000 people out of work? Can an OSHAcrat tell an industry to spend tens of millions to reduce workplace noise levels—when 49¢ earplugs on the workers would work just as well *if* they were worn?

Yet the second problem is even less tractable and more frustrating: How can the regulator even know all the relevant options for achieving the desired outcome? Providing any valuable resource, from clean air to safe working conditions, requires enormous information as to specific circumstances—knowledge not transferrable to Washington, D.C. It may only be available in scattered bits strewn among diverse and unfamiliar individuals, people who may themselves be ignorant of the valuable knowledge they possess unless thrust into a situation where they are rewarded for using it (or a third person rewarded for getting it out of them). The regulatory approach, as distinct from the market alternative, supplies no process whereby individuals directly involved in economic processes are solicited and *paid* for their contributions to progress.

Faced with such deeply rooted dilemmas, social scientists are finally recognizing that regulation is, from an analytical perspective, an *error.* That is, it does not accomplish what it seeks to accomplish, nor can it logically be *expected* to do so. The economists have offered their own way out; the goal of regulation should not be so naively construed. Once regulation is understood as a means to government-enforced cartels and the road to monopoly profits, it makes perfect sense. But, as this book claims, recent developments make this reformulation look less than perfect. On the one hand we see the rise of zealous, anti-industry agencies (EPA, OSHA, FDA), and on the other we see the collapse of some of the most notorious monopoly-makers, such as the CAB (the *first* federal regulatory body to be voted into retirement by the U.S. Congress) and the current onslaught against the ICC. The only conclusion to be had is that, as Bob Dylan hums, "the times they are a-changin." To which Professor Wilson can assure intellectuals everywhere that this is an optimal state of affairs, for such change allows us "to be struck at every turn by the importance of ideas."

Tom Hazlett

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